Commercial Bank Activities in Urban Mortgage Financing

CARL F. BEHRENS

FINANCIAL RESEARCH PROGRAM

STUDIES IN URBAN MORTGAGE FINANCING

National Bureau of Economic Research

COMMERCIAL BANK ACTIVITIES in Urban Mortgage Financing

Commercial banks play the most diversified role of all real estate financing agencies—lending on a short-term basis to finance construction, financing intermediary institutions such as mortgage loan companies, and making long-term mortgage loans on residential and commercial properties. The present volume deals mainly with the latter activity, about which information has been very inadequate.

The study's findings are based on several bodies of primary data, including detailed records of a sample of bank mortgage loans, survey data on lending costs and returns, and tabulations supplied by the Federal Deposit Insurance Corporation. It describes the legal basis and scope of commercial bank mortgage lending, the characteristics of such loans, and bank experience with this type of lending, covering acquisition and servicing costs, foreclosure and loss experience, and yields.

An introduction discusses commercial bank real estate financing as a whole, and tests the representativeness of the bank sample data by comparing it with the results of a subsequent FDIC survey and with comparable data on life insurance companies.

152 Pages 43 Tables 4 Charts

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in Urban Mortgage Financing

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PREFACE

THIS study of the activities of commercial banks in financing urban real estate is one of a series completed under the Urban Real Estate Finance Project of the National Bureau's Financial Research Program. Other studies in the series deal with the effect of governmental intervention in the real estate market; the characteristics of real estate as they affect the financial requirements of that market; the mortgage lending activities of life insurance companies, savings and loan associations, and the Home Owners' Loan Corporation; the comparative markets and investment experience of various institutions lending on the security of urban property; and the relation of mortgage financing to economic fluctuations.

A special satisfaction is felt in the completion of this study, arising from its unusually broad-based support. Contributing to the work were a foundation, three groups representing private financial institutions, and two federal bank supervisory agencies. Specifically, financial support was received for the study in grants from the Association of Reserve City Bankers, the Life Insurance Investment Research Committee, acting for the Life Insurance Association of America and the American Life Convention, and the Rockefeller Foundation; many of the data on which the study rests were collected with the technical assistance of the American Bankers Association and the Board of Governors of the Federal Reserve System; finally, the research itself, which was conducted under the responsibility of the National Bureau of Economic Research, was done under a cooperative agreement between the National Bureau and the Federal Deposit Insurance Corporation. The task was a difficult one, even with the combined resources available from these several

quarters, but it would have been impossible except through such a cooperative effort.

The agreement running between the National Bureau and the Federal Deposit Insurance Corporation was an agreeable one in every respect, making it possible for us to draw on the experience and knowledge of Mr. Behrens, a member of the FDIC's research staff, and other personnel of the Corporation and to analyze extensive tabulations of data collected by the Corporation in the exercise of its function as a bank supervisory agency. In all of this the cordial support of Maple T. Harl, Chairman of the FDIC, has been an indispensable aid.

The National Bureau expresses with pleasure its gratitude for the support of the FDIC and of all the other agencies contributing to the conduct of the study.

R. J. Saulnier
Director,
Financial Research Program

December 1951

AUTHOR'S ACKNOWLEDGMENTS

MANY individuals and organizations have contributed to this study, but to certain members of the staffs of the Federal Deposit Insurance Corporation and the National Bureau of Economic Research, the two organizations under which the study was made on a cooperative basis, my indebtedness is particularly great.

Donald S. Thompson was chief of the Division of Research and Statistics, Federal Deposit Insurance Corporation, when the idea for the study was originated, and played an important role in its planning. To Chairman Harl and the Board of Directors of the Federal Deposit Insurance Corporation, I wish to express my appreciation for officially sanctioning my participation in the study. I am also very grateful to staff members of the National Bureau's Financial Research Program: to Ralph A. Young, formerly in charge of the National Bureau's work in finance, for aid in the initial stages of the study, to Raymond J. Saulnier for encouragement throughout the entire period of research and for his kindly and penetrating criticism of the manuscript in the various stages of its preparation, to J. E. Morton for suggestions and advice, to Mildred E. Courtney for secretarial work, to Catherine P. Martin and Doris P. Warner for statistical assistance, and to Katherine E. Krenning and Isabel C. Lundberg for editorial work on the manuscript. Ernest M. Fisher of Columbia University has also given me assistance for which I am very grateful.

Among my associates, past and present, in the Federal Deposit Insurance Corporation I am indebted to Homer Jones, Florence Helm, and Edison H. Cramer, who have been in charge of the Division of Research and Statistics at various times during the course of the study; to Thomas H. Norwood of the Division of Examination, who has given me the benefit of his wide experience on many aspects of mortgage financing; to Edythe Garber for editorial aid; and to Hazel Shea for diligence and skill in processing the tabular materials.

I want also to express my appreciation to the numerous individuals in the several Federal Reserve banks and at the Board of Governors of the Federal Reserve System for assistance in obtaining the loan sample on which much of the study is based. Special acknowledgment is due the Federal Reserve Bank of Cleveland for preparation of the major part of the tabulations of sample data.

CARL F. BEHRENS

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INTRODUCTION

LENDING by commercial banks on the security of urban real estate has for many years been a rather narrowly circumscribed activity and, as will be seen from the account which this volume gives of the development of the legal framework within which banks finance real estate, they still operate under more severe limitations than those affecting other institutional lenders. Nonetheless, commercial banks play a many-sided and rapidly expanding role in the real estate financing market. It is to the task of describing factually an important aspect of this role—direct mortgage lending by banks for their own account—that the present study is principally devoted. It may be useful, however, in view of the limited scope of the study, to indicate, so far as available information will permit, at least the general nature and dimensions of the other real estate financing functions that banks currently perform.

First, commercial banks play a prominent, possibly a dominant, role in the short-term financing of building operations. In an increasing proportion of cases the permanent mortgage financing is supplied by the bank that extends the "construction loan," but most frequently some other type of lender is looked to for these longer term funds. This specialization of function results, of course, from the predominantly short-term character of the liabilities of commercial banks. Until recently there has been no information as to the amount of this type of lending, but a survey by the Federal Deposit Insurance Corporation of the real estate financing activities of insured commercial banks as of mid-1950 showed that of their $11.4 billion of nonfarm real estate loans about 7.5 percent—$840 million—were of the construction loan type.

Commercial banks also participate in urban real estate financing by extending credit to other financing agencies, such as mortgage loan companies, that occupy an intermediate position between the

mortgagor and the mortgagee supplying long-term, or so-called "permanent," financing. These loans enable the intermediate financing agencies to hold inventories of mortgages for an interval—ordinarily not a long period—between their origination by the borrowing company and their final lodgment with an institution prepared to supply long-term, or so-called "permanent," financing. The FDIC survey of insured commercial banks referred to above revealed that in the $11.4 billion of nonfarm real estate loans held in mid-1950 about $400 million—around 3.5 percent—were of this type. Of these credits to intermediary institutions only around $160 million, however, were actually secured by real estate.

While it might be concluded from these data that banks' holdings of long-term mortgages for their own accounts clearly constitute their most important real estate financing function, this is true only with some qualification. For one thing, construction loans and those extended to intermediate financing institutions have a relatively rapid turnover; consequently, even their quantitative importance relative to the volume of credit extended on a long-term mortgage basis is not properly reflected by an outstandings figure.

Furthermore, construction loans are of crucial importance in the real estate financing process in the sense that they are commonly essential to the undertaking of building projects, especially those of large scope. The end result of these building operations is the creation of long-term mortgage debts which are absorbed by the institutions supplying permanent financing. Thus the strategic role of construction loans is far greater than is indicated merely by their outstanding amounts at any one date.

In appraising the extent of the present study's coverage of bank real estate financing as a whole it should also be noted that a significant amount of the activity of banks in the mortgage market arises from the exercise of their trust functions. Thus, many banks acquire mortgages through their regular loan departments for trust investment, but since these do not appear among the reported assets of banks they are excluded from the $11.4 billion of urban real estate loans reported in the FDIC survey for mid-1950. Unfortunately there are no data available on the amount of such investments, or on their distribution among trust companies.

All of these urban real estate financing activities of commercial banks are supplementary to their role as direct long-term investors.

They are excluded from consideration in the present study in part because of the inadequacy of information concerning them, but also because a full discussion of them would have extended the scope of the investigation beyond manageable limits. One may hope, however, that this monograph will be supplemented, at some not too distant date, by investigations of those aspects of bank real estate financing which it has left untouched.

Direct investment by banks in long-term real estate mortgages is a subject of great importance, nonetheless, in view of the rapid increases in commercial bank urban mortgage holdings which have occurred since the end of World War II. The FDIC survey referred to above showed that the amount of urban real estate loans held by insured commercial banks had increased by more than $6 billion from mid-1946 to mid-1950. Furthermore, the importance of banks in the urban mortgage market relative to other types of lenders has increased markedly. Whereas commercial banks held approximately one-twelfth of the mortgage debt on one- to four-family, nonfarm homes in 1925, this ratio had increased to approximately one-sixth at the end of 1949. The present study, by bringing together much of the existing material pertaining to commercial bank urban mortgage lending, and presenting new primary data acquired through a sampling of the urban mortgage loans held by 170 commercial banks as of mid-1947, makes a considerable contribution to our knowledge of the mortgage market generally, as well as of the direct mortgage lending activities of commercial banks.

There is no need to give an accounting in this introduction of the numerous sources from which materials have been drawn for this study. However, in view of the extent to which the study depends on information on a sample of mortgage loans made by 170 banks it may be useful to comment briefly on the adequacy and representativeness of this particular segment of the data. The problem of obtaining an adequate sample of the loans of financial institutions is a formidable one. Cooperation in this study, which was solicited on an entirely voluntary basis, was not easily enlisted, in the main because the necessary records on mortgage loans made in earlier years are either inadequate or inaccessible. Accordingly, a high rate of nonresponse among the sampled banks was inevitable. The materials must be used very carefully, therefore, in drawing inferences concerning the lending practices of commercial banks as a whole.

Apart from the difficulty of obtaining materials from existing financial institutions, there is the further fact that a sampling of institutions undertaken at any time obviously cannot produce information from failed institutions or from those that have terminated operations for any other reason. A study based on the records of surviving institutions—such as the present investigation—is inevitably biased in the direction of relatively favorable investment experience. However, it is unlikely that this fact has substantially affected the results of the study, since most bank failures were attributable to losses on investments other than urban mortgage loans.

Confidence in the representativeness of the sample is strengthened to a considerable extent by the fact that nonresponse was least among banks with the heaviest mortgage holdings: responding banks constituted nearly 75 percent of all those with urban mortgage loan portfolios of $8 million or over as of mid-1945, around 50 percent of all those with mortgage holdings of from $4 to $8 million, though only about 1 percent of the banks with mortgage portfolios of less than $4 million. This heavy nonresponse among the small-portfolio banks probably exerts only a minor influence on the representativeness of the findings since the great bulk of the urban mortgage lending of commercial banks is done by the largest banks—about 35 percent in mid-1946 and 40 percent in mid-1950 by banks with deposits of more than $100 million.

Nonetheless, in view of the questions which a high margin of nonresponse necessarily raises concerning the representativeness of survey results, it may be of interest to compare the results of the bank survey with the results of a companion study of the activities of life insurance companies. Data were compiled for the latter on a high proportion of all life insurance urban mortgage lending activity, and the results are presumably more reliable. Accordingly, confidence may be had in the results of the commercial bank study to the degree that its results conform in general—with such nonconformity as might be expected owing to institutional differences—with the results of the more comprehensive analysis of insurance company activities. Also, at a number of important points the results of the 1947 sample study of commercial banks can be compared with those based on a complete enumeration of the real estate loans of insured commercial banks made by the FDIC in mid-1950.

Survey results show, as indicated in the following tabulation, that

considerably more than half of the amount of urban mortgage loans held by commercial banks were secured by one- to four-family dwellings. A smaller, but still appreciable, proportion of the loans held by insurance companies were in this same category. There is reason to believe, however, that the relatively high proportion of the amount of loans on nonresidential properties held by responding commercial banks is not altogether characteristic of commercial banks as a whole, in view of the results of the mid-1950 FDIC survey. This may well be due to an oversampling of larger banks in the mid-1947 survey but another factor doubtless is a shift toward the financing of larger income-producing properties which became evident in 1950. Nevertheless the broad outlines of portfolio composition revealed by the sample study are confirmed by the mid-1950 enumeration.

TABLE I — Percentage Distribution of the Amount of Urban Mortgage Holdings of Life Insurance Companies and Commercial Banks by Type of Property Securing the Loans

Type of Property	*24 Leading Life Insurance Companies,* End of 1946	*170 Commercial Banks,* Mid-1947	*All Insured Commercial Banks,* Mid-1950
1- to 4-family dwellings	44.0%	66.5%	71.4%
Other residential property	35.1	5.4	10.8
All other property	20.9	28.1	17.8
Total	*100.0%*	*100.0%*	*100.0%*

As would be expected, close conformity of results is found when comparisons are drawn between the characteristics of insurance company loans secured by one- to four-family dwellings and those made by commercial banks. In both cases the great bulk of loans is of relatively small original amount—under $10,000. This characteristic of the loan portfolios of banks is also revealed when those with large, medium, and small portfolios are considered separately (cf. below, Table 9, p. 42), though there is a somewhat greater concentration of loans of less than $5,000 in the small portfolios. This suggests that the relatively heavy nonresponse among the small-portfolio banks may well have the effect of overstating the average size of home mortgage loans for commercial banks as a whole. However, this effect could not have been very serious since the mid-1950 FDIC survey showed that, for banks as a whole, the average size of outstanding

loan balances secured by one- to four-family properties was approximately $3,600, whereas the mid-1947 commercial bank sample survey showed an average outstanding loan balance of $4,600. In view of the increase that took place between 1947 and 1950 in home prices, and thus in the average size of mortgage loans written, this result appears to bear out the inference that the sample tends somewhat to overstate average loan size, but suggests strongly that the overstatement is not substantial.

TABLE II — Percentage Distribution of Urban Mortgage Holdings of Life Insurance Companies and Commercial Banks by Original Amount of Outstanding Loans

Original Loan Amount	*24 Leading Life Insurance Companies,* End of 1946		*170 Commercial Banks,* Mid-1947	
	1- to 4-Family Dwellings	All Other Property	1- to 4-Family Dwellings	All Other Property
Less than $5,000	40.2%	.1%	26.8%	2.6%
5,000 – 9,999	46.4	1.4	53.8	4.9
10,000 – 19,999	11.2	3.8	15.3	9.3
20,000 and over	2.2	94.7	4.1	83.2
Total	*100.0%*	*100.0%*	*100.0%*	*100.0%*

Further evidence of broad similarity in the home financing policies of commercial banks and insurance companies is apparent when the samples for both are compared, as in the following tabulation, with respect to the insured or noninsured status of the loans, their repayment schedules, contract lengths and loan-to-value ratios. Though both types of agencies appear to have about the same proportion of their portfolios in loans made under federally-sponsored programs, commercial banks have been relatively much more active in making GI loans than have life insurance companies. This fact may be due mainly to the essentially local character of bank lending, but the sample, having been taken at a later date, also had a greater chance to include GI loans than the sample for insurance companies.

The reliability of the commercial bank sample is attested again by the results of the mid-1950 FDIC survey, according to which about 57 percent of the outstanding amount of all bank loans on one- to four-family properties were insured or guaranteed—27 percent insured by FHA and 30 percent guaranteed by VA—compared with

TABLE III — PERCENTAGE DISTRIBUTION OF THE AMOUNT OUTSTANDING ON ONE- TO FOUR-FAMILY MORTGAGE LOANS OF LIFE INSURANCE COMPANIES AND COMMERCIAL BANKS BY TYPE OF LOAN AND CONTRACT TERMS [a]

Loan Characteristics	*24 Leading Life Insurance Companies,* End of 1946	*170 Commercial Banks,* Mid-1947	*All Insured Commercial Banks,* Mid-1950
TYPE OF LOAN			
Insured	*53.2%*	*61.5%*	*57.5%*
FHA	47.7	21.0	27.2
VA	5.5	40.5	30.3
Noninsured	*46.6*	*38.4*	*42.5*
Fully amortized	35.6	21.4	38.0
Partially amortized	6.2	13.5	
Nonamortized	4.8	3.5	4.5
REPAYMENT SCHEDULE			
Monthly	89.7	90.1	..
Quarterly	2.2	4.0	..
Semiannually	2.6	1.7	..
Annually	.6	.5	..
No schedule	4.8	3.5	..
CONTRACT LENGTH [b]			
0 – 4 years	9.8	16.1	..
5 – 9	5.7	31.2	..
10 – 14	16.5	46.5	..
15 and over	67.9	6.2	..
LOAN-TO-VALUE RATIO [b]			
Under 40%	3.1	7.8	..
40 – 59	35.4	50.6	..
60 – 79	48.7	34.7	..
80 and over	12.1	6.5	..
Total	*100.0%*	*100.0%*	*100.0%*

[a] Excludes a few loans for which data were not available.
[b] Includes noninsured loans only.

about 62 percent in the sample study. Approximately the same percentage of the conventional, i.e., noninsured and nonguaranteed, loans of commercial banks and insurance companies were made on a full-amortization basis. Around 5 percent of the sample of insurance company conventional loans secured by one- to four-family properties were of the nonamortized type. About 4 percent of the amount of commercial bank loan balances were of this type, according to the 1947 sample and, on the basis of the complete enumeration of mid-

1950, around 5 percent. The materials show, however, a distinct tendency on the part of banks to be relatively conservative in their conventional lending as regards the maturity of loan contracts and the ratios of loan to value. This would be expected, of course, in view of the more restrictive legal framework under which banks operate.

The liberalizing effect on home mortgage credit terms of the federal loan insurance and guarantee programs is brought out sharply in the data which the sample surveys provide on changes since 1920 in the average contract length and average loan-to-value ratios of the loans made by banks and insurance companies. After 1934 the home mortgage loans made by both commercial banks and insurance companies carried considerably longer maturities and higher ratios of original loan amount to value of property. These changes are shown graphically in Chart 2 of the present study (page 51), which may be compared with Chart 4 in the companion study of *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, 1950).

In view of the character of home financing, and of the competitive nature of the home mortgage market, it is not surprising to find that interest rates on urban mortgage loans of commercial banks parallel closely those charged by insurance companies. This would be expected, of course, on loans made under the federal loan insurance and guarantee programs, but there is also a close similarity of rates on conventional loans.

TABLE IV — Average Current Interest Rates for Urban Mortgage Loans on One- to Four-Family Dwellings Held by Life Insurance Companies and Commercial Banks, Classified by Type of Loan

Type of Loan	*24 Leading Life Insurance Companies,* End of 1946	*170 Commercial Banks,* Mid-1947
Insured		
VA	4.1%	4.0%
FHA	4.5	4.5
Noninsured		
Fully amortized	4.6	4.9
Partially amortized	4.9	4.6
Nonamortized	4.9	4.7
Total	*4.5%*	*4.4%*

Perhaps the most striking influence of the loan insurance programs on the home mortgage market has been the virtual elimination of regional differences in interest rates. In effect, the federal programs have created a national pattern of mortgage rates, from which there can be only relatively minor deviations, though regional differences in the proportion of insured and guaranteed loans to total home loans outstanding may result in some variation in average interest rates for portfolios as a whole. This variation is somewhat greater for banks than for insurance companies, which might be expected in view of the nationwide range of the lending operations of the latter and the essentially local markets of most banks.

While it is instructive to compare similarities in the investment experiences of commercial banks and insurance companies with respect to urban mortgage loans, there are a number of reasons why one would expect to find differences in the two records. In the first place, the limitation of the commercial bank study to surviving institutions would tend, as indicated above, to produce a bias in the direction of relatively favorable experience. Furthermore, it is likely

TABLE V — AVERAGE CURRENT INTEREST RATES FOR URBAN MORTGAGE LOANS ON ONE- TO FOUR-FAMILY DWELLINGS HELD BY LIFE INSURANCE COMPANIES AND COMMERCIAL BANKS, CLASSIFIED BY CENSUS REGION

Census Region [a]	*24 Leading Life Insurance Companies,* End of 1946		*170 Commercial Banks,* Mid-1947	
	All Loans	Noninsured Loans	All Loans	Noninsured Loans
New England	4.6%	4.5%	4.4%	4.5%
Middle Atlantic	4.6	4.7	4.4	4.5
East North Central	4.5	4.6	4.4	4.6
South Atlantic	4.5	4.7	4.4	4.7
East South Central	4.5	4.5	4.5	4.5
West North Central	4.5	4.5	4.3	4.3
West South Central	4.5	4.7	4.4	4.7 [b]
Mountain	4.6	4.9	4.5	5.7 [b]
Pacific	4.5	4.6	4.4	5.1
United States	*4.5%*	*4.6%*	*4.4%*	*4.8%*

[a] For the states included in each census region, see footnote [b] of Table 6, Chapter 3.
[b] Based on twelve loans for the West South Central region and twenty for the Mountain region.

that the banking institutions able to provide information on samples of loans, that is, the responding banks, would be the better organized and better managed institutions and thus the institutions with the better investment records. Finally, until the end of the twenties the laws affecting commercial bank investment in mortgage loans were so much more restrictive than those affecting insurance companies that one would expect banks as a whole to have a more favorable investment experience. On the other hand, all life insurance companies survived the thirties, so that there is no survival bias and there seems to be no basis for believing that the few noncooperating insurance companies would have had a loss experience differing significantly from that of the cooperating companies.

The expectation that insurance company experience would be less favorable than that shown by the sampled commercial banks is borne out by a comparison of their foreclosure rates. When the loans made by insurance companies and commercial banks on one- to four-family dwellings over the period 1920–46 are classified according to the year in which they were originated and the percentage of the loans in each year which eventually went to foreclosure, the commercial bank experience—except for 1933 and 1937—is found to have been consistently better than that of the life insurance companies. For all types of properties combined, only 3.2 percent of the mortgage loans made by commercial banks over this period eventually went to foreclosure while 8.2 percent of the loans made by insurance companies were so terminated.

However, the relative severity of the foreclosure experience of the two types of institutions in different periods was markedly similar. Thus, the percentage of loans going to foreclosure of those made in the years 1925–29 was, in both cases, about four times as great as the percentage going to foreclosure of those made in the period 1920–24. On the other hand, while the experience of commercial banks on loans made in the period 1930–34 was considerably better than their experience on loans made in the years 1920–29, this was not true of the life insurance companies.

Despite the fact that the commercial banks for which loan experience information was available had a better foreclosure experience record over the years 1920–46 than the reporting insurance companies, they seemed to do less well in the disposal of foreclosed properties. Thus, the losses which commercial banks sustained on

foreclosed one- to four-family properties arising out of loans originated in the period 1920–47 was 24 percent of the original amount of the loans foreclosed, as compared with something less than 10 percent for insurance companies. Similarly, the losses in percent of original loan amount on loans secured by properties other than one- to four-family dwellings were more than twice as high for commercial banks (36.1 percent) as for insurance companies (13.4 percent). However, it is interesting to observe that, for both types of institutions, loss ratios were highest where the time-span between the origination of the loan and the period of the property's disposal was greatest.

TABLE VI — Foreclosure Rates for Urban Mortgage Loans on One- to Four-Family Dwellings Made by Life Insurance Companies and Commercial Banks, Classified by Year Made, 1920–46 [a]

Year Made	*24 Leading Life Insurance Companies*	*116 Commercial Banks*	*Year Made*	*24 Leading Life Insurance Companies*	*116 Commercial Banks*
1920	6.2%	2.1%	1935	3.4%	.8%
1921	4.9	2.3	1936	2.5	.0
1922	3.2	2.0	1937	1.8	5.0
1923	7.9	2.5	1938	1.7	.0
1924	12.0	5.6	1939	1.9	.1
1925	15.0	10.6	1940	.4	.0
1926	19.6	8.9	1941	.1	.0
1927	21.8	11.1	1942	.3	.0
1928	28.5	14.1	1943	.4	.0
1929	29.6	13.7	1944	.0	.0
1930	22.0	6.4	1945	.0	.0
1931	23.9	9.0	1946	.0	.0
1932	16.7	4.6			
1933	.0	2.5			
1934	5.2	.0	*Total*	*9.3%*	*3.4%*

[a] For a definition of foreclosure rate, see footnote [a] of Table 19, Chapter 4.

The insurance company and commercial bank samples again show the same general pattern of experience when gain or loss, expressed in percent of the original amount loaned, is studied according to the characteristics of the loans involved. For both types of institutions the loans made on one- to four-family dwellings on a

nonamortized basis had a higher loss rate than those made on a full- or even partial-amortization basis, though the differences are considerably greater for commercial banks than for insurance companies. Differences in experience according to the terms on which the loans were made—i.e., contract lengths, interest rates, and loan-to-value ratios—are unsystematic in both cases.

A final measure of commercial bank and insurance company experience in the field of mortgage investment is provided by a comparison of the contract interest rates and realized yields on loans of different types, and by the "loss rate," that is, the difference between the contract rate and realized yield. General conformity is found to exist between the two types of institutions in these respects. Loss rates for both insurance companies and commercial banks were lower on one- to four-family dwellings than on all other types of property combined. Loss rates on one- to four-family loans made in different periods were roughly similar for insurance companies and commercial banks—being lowest on loans made in 1920–24 and highest on those made in 1925–34—but the record is relatively uneven when loss rates are studied by contract length and by loan-to-value ratios.

In general, one would expect higher loss rates to be associated with relatively high contract interest rates, that is, for differences in realized yields to be less than differences in contract rates. However, this expectation is not borne out by the loan experience records of either commercial banks or insurance companies. In the case of insurance company loans, little difference is found between the contract interest rates on loans secured by one- to four-family properties and those secured by "all other" properties, when loans of the same size are compared. Yet the loss rates for any given size class of loans are sometimes higher on those secured by one- to four-family properties, sometimes higher on those secured by other properties. A particularly notable fact is that the very largest apartment and nonresidential loans—those of $100,000 and over in original amount—had the lowest contract interest rates of all size groups and in general the highest loss rates. Roughly the same was found to be true in commercial bank experience. In the main, therefore, the facts suggest that financial institutions failed to make adjustments in interest rates sufficient to counterbalance ultimate differences in loss experience.

Finally, we may contrast commercial banks and insurance companies with respect to the costs of acquiring and servicing mortgage loans. In this respect the information available for commercial banks is very much less complete than the data on loan administration costs for life insurance companies, yet the results are broadly similar. The gross income of commercial banks on their mortgage loan portfolios —from 4.26 to 4.75 percent of average loan investment for the majority of banks—ranged somewhat higher than the gross income earned by life insurance companies, but the closeness of the cost ratios is particularly striking. For 1946 a limited group of banks reported costs which averaged 1.35 percent of their average loan investment, whereas life insurance companies with the smaller loan portfolios—which would be the group most closely comparable in scale of operations—reported an average cost of 1.17 percent. As a result, the ratios of net income to average loan investment for commercial banks and insurance companies with relatively small portfolios as of 1947 are fairly close—in the neighborhood of 3 percent.

These comparisons of the characteristics of loans made by commercial banks and insurance companies and of the investment experience of the two types of institutions tend, in general, to strengthen the confidence that may be placed in the sample data for banks. The comparisons also point up the over-ruling fact that mortgage investment experience, over the period 1920–47, varied only narrowly from one type of institution to another.

R. J. Saulnier

CHAPTER 1

Legal Framework of Urban Mortgage Lending by Commercial Banks

Since World War I, commercial banks in the United States have participated to an increasing extent in the financing of urban real estate. This development parallels in some measure the widened activities of commercial banks in the field of term lending and in other types of secured lending, which they entered mainly because of changes in the credit requirements of potential users of bank credit. These new activities were stimulated also by changes in federal and state laws. Of these, the National Housing Act, which induced changes in state laws allowing banks to make and hold loans insured under the Federal Housing Administration, was extremely important.

In this study, the main purposes of which are to examine the development of urban mortgage lending by commercial banks and to survey their experience with urban real estate mortgage loans since 1920, mortgage lending is defined as a process in which the lender takes collateral "in the form of an instrument which gives him certain rights against the title to real property." [1] By urban mortgage loans are meant all mortgage loans on nonfarm properties, including those on residential, commercial, and industrial real estate. The study covers the activities of all operating national banks, all incorporated state banks, trust companies, and stock savings banks.[2] The mortgage lending activities of mutual savings banks are excluded because these have been the subject of a recent investigation.[3]

[1] *Home Mortgage Lending,* American Institute of Banking (New York, 1938) p. 11.

[2] *Annual Report of the Federal Deposit Insurance Corporation,* 1943, p. 59. In the case of trust companies only mortgages held in the bank's own account are included.

[3] John Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets* (Harvard University, 1948).

Development of Laws and Regulations Affecting Commercial Bank Mortgage Lending

There have been three fairly distinct periods in the development of urban mortgage lending by commercial banks since the National Bank Act was passed in 1863. The first—1863 to 1913—was one in which state banks largely dominated bank activity in the mortgage field; the second—1914 to 1931—showed few changes in state and national banking laws, and these were mainly in the direction of liberalizing the restrictive legislation; in the third period—covering the years since 1931—there were many changes in banking laws and practices relating to mortgage investment.

Domination of bank mortgage lending by state-chartered institutions, 1863–1913

The National Bank Act of 1863 conferred authority on national banks to lend money "on real and personal security," but the words "real and" were struck out in the Act of 1864 and it was not until the passage of the Federal Reserve Act, at the end of 1913, that national banks situated elsewhere than in central reserve cities were permitted by statutory law to make loans secured by farm real estate.[4]

However, banks chartered under the National Bank Act of 1864 were permitted to take real estate mortgages to prevent losses on debts previously contracted in good faith (the so-called DPC loans) and, if necessary, to acquire title to the property, although property acquired in this manner had to be disposed of within five years.[5] The law was strictly interpreted in the early years of the National Bank Act, but later was given a more liberal interpretation. Thomas P. Kane, Deputy Comptroller of the Currency from 1899 to 1923, writes of this: "Competition with trust companies and other banking institutions operating under State authority, more liberal in the scope of corporate powers conferred, forced many competing national associations doing business in the same locality into undertakings not contemplated by the national banking laws and foreign to the legitimate functions of a commercial bank. The powers conferred upon

[4] Act of February 25, 1863, c. 58, 12 Stat. 668; Act of June 3, 1864, c. 106, 13 Stat. 101; and Federal Reserve Act, December 23, 1913, c. 6, 38 Stat. 273, sec. 24.

[5] June 3, 1864, c. 106, 13 Stat. 108, sec. 28, "Such association shall not purchase or hold real estate in any other case or for any other purpose than as specified in this section."

trust companies and savings banks to make loans upon real estate security induced many national associations to make loans upon like security by resorting to indirect methods to evade the restrictions of the statute. This was particularly true of localities where mortgage loans were the principal securities dealt in by savings banks and trust companies." [6]

Apparently, in later years such evasion was sometimes sanctioned by federal bank supervisory officials. Kane comments on this as follows: "While the national banking laws should be construed as broadly and as liberally as is possible consistent with the intent and spirit of the statutes, it is the sworn duty of an administrative officer to enforce an observance of the law as it exists and not endeavor to twist it out of shape either to meet his own views or the wishes of the bankers as to what it should be.

"Unfortunately there has been too much of a disposition in later years in the administration of the Currency Bureau to change existing law by administrative regulations or rulings, unwarranted by any reasonable construction of the statutes, to meet the demands incident to competition between national and State institutions. In no respect was this fact more patent than in its application to real estate loans. Official rulings in this connection practically nullified the prohibitive provisions of the statutes and conferred upon the banks privileges which had been denied them, up to that time, by Congress since 1864." [7]

In a 1910 digest of banking laws covering the forty-six states, the District of Columbia, and the territories of Arizona and New Mexico only eleven states were reported to have restrictions on real estate lending by commercial banks.[8] These were California, Michigan, Minnesota, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas, and Wisconsin. Loans could be made in California, New York, North Dakota, Oklahoma, and Pennsylvania but only on first liens. In Michigan, South Carolina, and Wisconsin the total amount of real estate mortgage loans was limited to 50 percent of a bank's capital and deposits. In Minnesota it was necessary that the land be worth twice the amount of the loan.

[6] Thomas P. Kane, *The Romance and Tragedy of Banking*, 3rd ed. (New York, 1930) p. 90.

[7] *Ibid.*, pp. 90, 91.

[8] *Digest of State Banking Statutes*, compiled by Samuel A. Welldon, National Monetary Commission, Senate Document No. 353, 61st Congress, 2nd Session (1910).

Despite "official rulings," national banks appeared reluctant to make real estate loans in any volume. Thus, on June 4, 1913 the holdings of real estate loans by these institutions amounted to only $77 million, or 0.7 percent of their total resources. In the state banks, stock savings banks, and loan and trust companies, many of which were under no restrictions as regards real estate lending, real estate loans amounted to $1,620 million, or 15.6 percent of total assets.[9]

LIBERALIZATION OF THE LEGISLATIVE BASIS OF MORTGAGE LENDING BY NATIONAL BANKS, 1914–31

The following provision in the Federal Reserve Act of 1913 opened the way for national banks to enter the field of farm mortgage lending:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal reserve district, but no such loan shall be made for a longer time than five years, nor for an amount exceeding fifty per centum of the actual value of the property offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

"The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section." [10]

This provision which permitted loans only on farm land was amended in 1916 to provide for one-year loans on urban real estate as follows:

"Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan

[9] *Annual Report of the Comptroller of the Currency*, 1913, pp. 38, 51, 60.

[10] December 23, 1913, c. 6, 38 Stat. 273, sec. 24.

made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

"The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured upon real estate in the manner described in this section." [11]

The unfavorable competitive position of national banks during the latter part of the nineteenth century and the first decade of the twentieth was, no doubt, an important factor in liberalizing the basis on which these banks were allowed to make real estate loans. During the next decade the position of national banks improved both absolutely and relative to that of state-chartered institutions. During the ten-year period June 1913 to June 1923, state bank holdings of real estate loans advanced from $1,620 million to $1,818 million, or only 12 percent, while national bank holdings of comparable assets increased 500 percent, from $77 million to $463 million. Relative to deposits, however, the real estate loans of national banks were still considerably less than those of state banks, stock savings banks, and loan and trust companies.[12]

A further modification of the national bank laws was proposed in 1924 by Representative Louis T. McFadden, who recommended that Section 24 of the Federal Reserve Act be amended to provide that the time limit on loans made by national banks on improved business and residential property be increased from one to five years and that national banks be permitted to make such loans to an aggregate amount not in excess of 50 percent of their time deposits.

These proposals were favorably commented upon by the Comptroller of the Currency as follows: "Of all the numerous suggestions made to the office of the comptroller for revision of the national

[11] September 7, 1916, c. 461, 39 Stat. 754, "An Act to amend certain sections of the Act entitled 'Federal Reserve Act.'"

[12] *Annual Report of the Comptroller of the Currency,* 1923, pp. 29, 34, 99, 101, 103.

banking laws, on none has there been greater unanimity than on the suggestion for liberalizing the lending powers of national banks upon the security of real estate. From every section of the country, especially from banks located outside of the large cities, there is an insistent demand for the removal of the handicaps which the existing laws impose in this connection.

"Section 24 prohibits a national bank from lending money upon first mortgage security upon city property for a longer period than one year and further limits the aggregate amount of such loans to a sum not in excess of one-third of the time deposits. The State banks and trust companies in active competition have no such limitations imposed upon them. A first mortgage upon improved city property is considered a very fine form of security. But real estate loans are ordinarily made for a longer period than one year. If a national bank is prohibited from meeting the needs of its customers in this connection, the customer naturally will go to the State bank to borrow the money upon his real estate, and the State banks as a result will get his account and in many cases his entire commercial business. This is one of the severest forms of competition which the national banks outside of the large banking centers face to-day and it accounts in a large measure for the rapid growth of the trust companies in those localities and for the relative reduction of the resources of national banks.

"The argument which is most generally advanced against having long-term real estate securities in national banks is that they are not readily convertible. This has been adduced against the removal of the one-year period for city real estate and the five-year period for country real estate. As a matter of fact, the probabilities are that if real estate is to be handled by the banks the liquidity would be greater if indefinite latitude as to time were granted. The banks would then handle most of their mortgage real estate loans in somewhat the same way they handle bonds which they sell. There is a well-established and definite market for real estate mortgages. This market does not cover mortgages of as short a term as one year, and, as a rule, the shortest term is five years. If the banks were able to carry these maturities of five years or over, they would then have the notes and mortgages in such condition that they could be disposed of to a wide clientele. A five-year mortgage is salable and convertible, whereas a one-year mortgage is not. On this account alone it is very possible that, instead of increasing the volume of frozen assets of

banks, this longer period would produce greater liquidity and at the same time enable the banks to add very much to their services to their customers." [13]

These proposals to liberalize the laws under which national banks could compete for mortgages, being tied up with other proposals relating to branch banking, were debated for three years and it was not until 1927 that they became law in the McFadden Act.[14] Between mid-1927 and mid-1929 the nonfarm real estate loans of national banks increased by about 45 percent while their total resources were growing by around 3 percent. During the same period there was a decline in the reported nonfarm real estate loans of state commercial banks, and virtually no change in their total assets.[15]

LEGISLATIVE DEVELOPMENTS IN THE PERIOD SINCE 1931

The decline in security prices after October 1929 was soon followed by a rapidly rising tide of urban real estate mortgage foreclosures. These exceeded 252,000 in 1933, or nearly twice the number foreclosed in 1929 and nearly four times the number foreclosed in 1926.[16] Since the majority of urban mortgage loans were secured by small, single family, residential properties, a large proportion of the loans foreclosed were home mortgages. The Federal Home Loan Bank Act was the first legislative action taken to meet this emergency, but it soon became apparent that an additional and more powerful instrument was required to alleviate the existing distress.[17] For this purpose, the Home Owners' Loan Corporation, which began lending operations in June of 1933, was created.[18] During the three years of its refinancing operations more than a million mortgages on individual homes were taken over by the HOLC.[19]

[13] *Annual Report of the Comptroller of the Currency,* 1924, p. 11.

[14] February 25, 1927, c. 191, 44 Stat. 1232, sec. 16, amending sec. 24 of the Federal Reserve Act.

[15] *Annual Report of the Comptroller of the Currency,* 1927, pp. 735, 739, 771 and 775; *ibid.,* 1929, pp. 665, 669, 701 and 705.

[16] *Statistical Summary, 1949,* Home Loan Bank Board, Table 16, p. 18.

[17] July 22, 1932, c. 522, 47 Stat. 725.

[18] Home Owners' Loan Act of 1933, June 13, 1933, c. 64, 48 Stat. 128.

[19] *Sixth Annual Report of the Federal Home Loan Bank Board,* 1938, p. 69. An account of the operations of the HOLC, and of its experience in handling distressed mortgage loans will be found in C. Lowell Harriss, *History and Policies of the Home Owners' Loan Corporation* (National Bureau of Economic Research, Financial Research Program, 1951).

Once the machinery for preventing wholesale foreclosures had been established, attention could be directed to corrective measures and to recovery. The first major legislation designed specifically to improve mortgage lending conditions was the National Housing Act which created a Federal Housing Administration in 1934.[20] Essentially, this Act provided for the insurance of mortgage loans and, secondarily, for the insurance of unsecured loans for the repair and modernization of real property. The mortgage insurance plan did not become fully operative, however, until the end of the first quarter of 1935, because of the lack of appropriate state enabling legislation. In the meantime, the plan for insurance of modernization credits developed rapidly and by the end of March 1935 more than 100,000 repair and modernization loans for an amount in excess of $50 million had been made.[21] Support for this legislation came from a wide variety of sources, including some financial institutions, labor groups, builders, manufacturers of building supplies, and real estate associations. Much of this support was based on the belief that the proposed legislation would improve mortgage lending practices and promote recovery in the construction industry. The second major legislative development was the amendment of the Federal Reserve Act on August 23, 1935 to permit national banking associations under specified conditions to make ten-year, 60 percent amortized loans where they had previously been restricted to five-year, 50 percent loans.[22]

The Present Legal Basis of Commercial Bank Mortgage Lending

The laws that currently cover the mortgage lending operations of national banks are Section 24 of the Federal Reserve Act, and Section 5200 of the National Bank Act. The amended section of the Federal Reserve Act reads as follows:

"1. Real-estate loans by national banks

Sec. 24. Any national banking association may make real-estate loans secured by first liens upon improved real estate, including improved farm

20 June 27, 1934, c. 847, 48 Stat. 1246.

21 *Second Annual Report of the Federal Housing Administration,* 1935, pp. v and vi, 1 and 8, and Miles L. Colean, *The Impact of Government on Real Estate Finance in the United States* (National Bureau of Economic Research, Financial Research Program, 1950) Chapter 6, pp. 97–98.

22 Banking Act of 1935, August 23, 1935, c. 614, 49 Stat. 706, Title II, sec. 208, amending sec. 24 of the Federal Reserve Act.

land and improved business and residential properties. A loan secured by real estate within the meaning of this section shall be in the form of an obligation or obligations secured by a mortgage, trust deed, or other instrument upon real estate, which shall constitute a first lien on real estate in fee simple or, under such rules and regulations as may be prescribed by the Comptroller of the Currency, on a leasehold (1) under a lease for not less than ninety-nine years which is renewable or (2) under a lease having a period of not less than fifty years to run from the date the loan is made or acquired by the national banking association, and any national banking association may purchase any obligation so secured when the entire amount of such obligation is sold to the association. The amount of any such loan hereafter made shall not exceed 50 per centum of the appraised value of the real estate offered as security and no such loan shall be made for a longer term than five years; except that (1) any such loan may be made in an amount not to exceed 60 per centum of the appraised value of the real estate offered as security and for a term not longer than ten years if the loan is secured by an amortized mortgage, deed of trust, or other such instrument under the terms of which the installment payments are sufficient to amortize 40 per centum or more of the principal of the loan within a period of not more than ten years, and (2) the foregoing limitations and restrictions shall not prevent the renewal or extension of loans heretofore made and shall not apply to real-estate loans which are insured under the provisions of title II, title VI, title VIII, or section 8 of title I of the National Housing Act or which are insured by the Secretary of Agriculture pursuant to title I of the Bankhead-Jones Farm Tenant Act. No such association shall make such loans in an aggregate sum in excess of the amount of the capital stock of such association paid in and unimpaired plus the amount of its unimpaired surplus fund, or in excess of 60 per centum of the amount of its time and savings deposits, whichever is the greater." [23]

Section 5200 of the National Bank Act now reads as follows:

"The total obligations to any national banking association of any person, copartnership, association, or corporation shall at no time exceed 10 per centum of the amount of the capital stock of such association actually paid in and unimpaired and 10 per centum of its unimpaired surplus fund." [24]

[23] Federal Reserve Act as amended October 25, 1949, c. 729, 63 Stat. 906; and April 20, 1950 (Public Law No. 475, 81st Congress).

[24] *Federal Laws Affecting National Banks as of July 1, 1940* [U.S.R.S., sec. 5200] p. 203, paragraph 1375.

There is wide variation in the laws under which state commercial banks make mortgage loans. A recent digest of these laws indicates that restrictions are placed on the term of years for which ordinary real estate loans may be written in only twenty states, and restrictions on the maximum loan-to-value ratio of such loans in twenty-three states.[25]

Commercial Bank Supervision of Mortgage Lending

There are many examples in the early history of banking in the United States of attempts to regulate banking institutions through the chartering process, but regulation through examination and supervision was slow in developing.[26] In 1870 state banks were regularly examined in only two states: Connecticut and New Hampshire. By 1910 examinations were made, at least annually, in forty-one of the then existing forty-six states. However, even at the turn of the century the examination of national banks, which had begun under the National Bank Act, left much to be desired. It has been stated that the examiners, "inadequate in number, compensated on a fee basis, and drawn in many cases from the ranks of those without actual accounting experience, did their work, hurriedly, inefficiently and without special reference to the soundness and liquidity of bank loans." [27]

The fee system was abolished with the passage of the Federal Reserve Act and examiners of both national and state banks were paid on an annual salary and expense basis. And yet as late as 1926 Professor H. Parker Willis, in testimony before the Senate Committee on Banking and Currency, commented on state bank supervision as follows: "In spite of some progress within recent years toward uniformity of practice and procedure under the several State laws on banking, there is even now a very general lack of any accepted or single standard of efficiency and oversight, as well as a general lack of any uniform recognition of the appropriate matter to be contained in a banking law." [28]

25 *Legal Maximum for Loan-Value Ratio and for Term of Real Estate Loans by State Banks Generally and to G. I.'s,* American Bankers Association (New York, July 5, 1946).

26 See Vance L. Sailor, "Bank Supervision and the Business Cycle," *The Journal of Finance* (October 1948) pp. 65–77.

27 Chester A. Phillips, *Bank Credit* (New York, 1923) p. 296.

28 U. S. Congress, Senate, *Hearings* before a Subcommittee of the Committee on Banking and Currency on S. 1782 and H. R. 2; 69th Congress, 1st Session (1926) p. 139.

Funds for state bank supervision were often irregular and inadequate; political considerations entered into the appointment of bank superintendents and examiners; records were unsatisfactory, incomplete and poorly kept in numerous instances; and relations with the national bank system and with the Federal Reserve System were unsatisfactory in many cases. Conditions in the federal supervisory agencies also left much to be desired. However, progress has been made in recent years in the development of objective criteria by which the soundness of different types of bank assets can be judged. In the following section these criteria are discussed as they relate to the mortgage loan portfolio.

OBJECTIVES AND CRITERIA

Bank examination is concerned with the interests of depositors, borrowers, and shareholders but its main concern is naturally with the depositors. To this end the examination provides for periodic reviews of bank operations, to learn if the laws, rules and regulations under which the bank operates are being complied with, and, having due regard to the character and volatility of the bank's deposits, to learn if the depositors' funds have been converted into satisfactory earning assets.

Specifically, an examiner is interested, when examining the urban mortgage loan portfolio of a commercial bank, in determining whether new loans have been made on a legal basis. That is, he determines whether the loan bears a ratio to the property's appraised value which falls within the prescribed limit, whether the mortgage has been properly recorded, and whether the title to the property is clear. All mortgage loans, regardless of when they were originated, are examined to determine if payments to principal and interest are current, and if insurance and taxes on all properties have been paid as they came due. Also, the examiner will be interested in the character of the loan portfolio. Loans with unusual characteristics as well as concentrations in certain types of mortgage loans, in certain size groups, maturities, locations, and periods of acquisition, may be a basis for criticism. The quality of a bank's servicing of its mortgage loan portfolio will also be of special interest to the supervising agency and at the present time special importance is attached to unusually thin equities and low rates of interest.

Considerable latitude is allowed the examiner in grouping urban

mortgage loans, but they are usually separated into two general classifications: criticized and uncriticized loans. Criticized loans, as will be indicated below, are further subdivided. In making this basic division into criticized and uncriticized loans, the examiner takes into account factors that fall into one or the other of two categories: namely, those which relate to equity and those which relate to loan performance. Loans that have an adequate equity or guaranty and on which regular payments of principal and interest have been made are classified as satisfactory or uncriticized; loans falling short in one or both of these respects are regarded as unsatisfactory or criticized loans.

An early tentative attempt by a federal supervisory agency to systematize loan classification is illustrated by the following listing of characteristics of substandard real estate loans:

1. Real estate loans in process of foreclosure or deeds pending.
2. Real estate loans under rent assignment and/or "mortgagee in possession" in which no material progress or improvement has been shown and combined annual interest and amortization received is less than 5 percent of the unpaid principal.
3. Real estate loans, the arrears of which are equal to 10 percent of the unpaid principal and/or have continued in default for more than one year in interest and/or taxes.
4. Real estate loans, the arrears of which are equal to 5 percent of the unpaid principal and/or have continued in default for more than six months and in which the unpaid principal is 70 percent or more of the bank's appraised value of the property.
5. Real estate loans, current but nonamortizing, in which the unpaid principal is 80 percent or more of the bank's appraised value of the property.
6. Real estate loans, current and amortizing, in which the unpaid principal is 80 percent or more of the bank's appraised value of the property, and combined annual interest and amortization is less than 5 percent of the unpaid principal.
7. Real estate loans, current and amortizing, in which the unpaid principal exceeds 90 percent of the bank's appraised value.
8. Real estate loans, not included above, which contain substantial risk of loss.

Role of Commercial Banks in the Urban Mortgage Market

THE market in which urban real estate mortgage financing is conducted is far from homogeneous. On the demand side are borrowers ranging from the individual whose credit requirements are small, and possibly of a short-term character, to the large corporation seeking a loan that may run to millions of dollars and be repaid over several decades. Suppliers of funds include, on the one hand, individuals with but a few hundred dollars to be loaned for a short period, and, on the other hand, large banks and insurance companies with, in some cases, millions of dollars committed on individual projects for a long time.

The major financial institutions—life insurance companies, savings and loan associations, mutual savings banks, and commercial banks—are the main sources of urban real estate mortgage credit, but individuals and miscellaneous private lenders also constitute an important source. How important are commercial banks as a source of urban mortgage credit? How do banks of different size and location compare with regard to their holdings of mortgage loan assets? How does the volume of urban real estate mortgage assets of commercial banks compare with that of other types of assets and with their time deposit liabilities? It is with these and related questions that the present chapter deals.

Urban Mortgage Credit Outstanding in Commercial Banks, 1949

At the end of 1949, after several years of extensive private building activity, the urban mortgage loans carried as earning assets by insured commercial banks amounted to $10.5 billion of which $8.5 billion were loans on residential properties and $2.0 billion were loans on other types of property (Table 1). The distribution of the $10.5 billion total among the three types of banks was as follows:

TABLE 1 — INSURED COMMERCIAL BANK URBAN MORTGAGE LOANS, CLASSIFIED BY TYPE OF PROPERTY AND TYPE OF BANK, DECEMBER 31, 1949 [a]

(dollar figures in millions)

Type of Bank	*All Urban Mortgage Loans*	*Loans Secured by*	
		Residential Properties	Other Properties
		Distribution of Amount	
National	$5,563	$4,532	$1,031
State member	2,770	2,224	547
State nonmember	2,194	1,757	437
All Banks	*$10,527*	*$8,513*	*$2,014*
		Percentage Distribution by Type of Property	
National	100.0%	81.5%	18.5%
State member	100.0	80.3	19.7
State nonmember	100.0	80.1	19.9
All Banks	*100.0%*	*80.9%*	*19.1%*
		Percentage Distribution by Type of Bank	
National	52.8%	53.2%	51.2%
State member	26.3	26.1	27.1
State nonmember	20.9	20.6	21.7
All Banks	*100.0%*	*100.0%*	*100.0%*

[a] Federal Deposit Insurance Corporation, *Assets and Liabilities, December 31, 1949, Operating Insured Commercial and Mutual Savings Banks,* Report No. 32, p. 10. Amounts do not always add to totals shown due to rounding.

national banks about $5.6 billion; state member banks, $2.8 billion; and state nonmember banks, $2.2 billion. For each of these types of banks, about 80 percent of the urban mortgage loans were secured by residential properties and the remaining 20 percent were secured by commercial properties. National banks accounted for more than half of each type of loan. At the same time life insurance companies held $11.8 billion of urban real estate mortgages, savings and loan associations $11.6 billion, mutual savings banks $6.7 billion, and individuals and other private lenders $17.4 billion.[1]

[1] Bureau of Foreign and Domestic Commerce, *Survey of Current Business,* October 1950, Table 6, p. 15.

Commercial Bank Size and the Amount of Urban Residential Mortgage Investment [2]

The 13,436 operating insured commercial banks of this country reported total deposits of $143,194 million at the end of 1949, averaging a little more than $10 million each. However, the distribution of banks by deposit size is very uneven with a large number of very small institutions and a few very large ones. Nearly one-third of all banks have deposits of between $2 million and $5 million; 44 percent have deposits of less than $2 million, and 25 percent have deposits of $5 million and over (Table 2). It will be noted that banks with deposits of under $2 million held only 5 percent of all commercial bank mortgages on residential properties at the end of 1949, while banks with deposits of $5 million or more held slightly more than four-fifths of all such loans. Banks with deposits of from $2 to $5 million held 13 percent of the total. Finally, as can be seen, the few very large banks held most of the mortgages secured by residential properties. Banks having $100 million or more in deposits account for 1.3 percent of all insured commercial banks, and about 40 percent of all time deposits and outstanding bank mortgage loan balances.

For commercial banks considered as a whole, residential real estate mortgage loans amounted to 5.5 percent of total assets (Table 2). The percentage was largest for banks of intermediate size; institutions with deposits of from $2 to $25 million had somewhat larger percentages of their assets in the form of urban residential mortgages than did smaller or larger banks. The relationship of banks' holdings of residential mortgages to the amount of their time deposits is much more stable, varying only very little from one size-group of banks to another and with no systematic difference between small and large banks. For insured commercial banks as a whole the ratio of residential mortgage holdings to time deposits averaged 24.7 percent at the end of 1949 and varied among classes of banks within the narrow range of 21.6 and 26.0 percent. This suggests that bank managements may, as a matter of policy, set limits on their mortgage holdings by reference to the amount of their time deposits.

The relation between banks' holdings of residential mortgage loans and the amount of their capital varies considerably, and on the whole systematically, with bank size. For all banks, urban residential

[2] Data on commercial bank holdings of urban nonresidential mortgage loans are not available by size of bank.

TABLE 2 — Loans Secured by Residential Properties as a Percentage of Total Assets, Time Deposits, and Total Capital of Insured Commercial Banks, Classified by Deposit Size of Bank, December 31, 1949 [a]

(dollar figures in millions)

Deposit Size of Bank (000,000)	*Insured Commercial Banks*		*Time Deposits* [b]		*Loans Secured by Residential Properties*		*Loans Secured by Residential Properties as a Percentage of*		
	Number	Percent	Amount	Percent	Amount	Percent	Total Assets	Time Deposits [b]	Total Capital [c]
Less than $1	2,534	18.9%	$391	1.1%	$96	1.1%	5.1%	24.6%	51.6%
1.0 – 1.9	3,312	24.7	1,343	3.9	323	3.8	6.1	24.1	79.2
2.0 – 4.9	4,182	31.1	4,159	12.1	1,081	12.7	7.6	26.0	106.1
5.0 – 9.9	1,797	13.4	4,274	12.4	1,109	13.0	8.2	25.9	122.5
10.0 – 24.9	974	7.2	5,043	14.6	1,228	14.4	7.7	24.4	119.3
25.0 – 49.9	299	2.2	3,024	8.8	654	7.7	5.9	21.6	95.8
50.0 – 99.9	157	1.2	2,712	7.9	615	7.2	5.2	22.7	85.4
100 and over	181	1.3	13,516	39.2	3,407	40.0	4.2	25.2	59.8
Total	*13,436*	*100.0%*	*$34,462*	*100.0%*	*$8,513*	*100.0%*	*5.5%*	*24.7%*	*79.9%*

[a] Data compiled by the Federal Deposit Insurance Corporation.

[b] Excludes government and interbank time deposits.

[c] Total capital includes the book value of capital notes, debentures, preferred and common stocks, surplus, undivided profits, and reserves other than for expenses.

mortgage loans amounted to 79.9 percent of total capital but banks in each of the three deposit-size groups—$2 to $5 million, $5 to $10 million, and $10 to $25 million—reported an amount of outstanding mortgage loans that was greater than their capital (Table 2). The ratio decreased with bank size to the point where banks with less than $1 million deposits had urban residential mortgage loans equivalent to but half of their total capital resources. The ratio of urban residential mortgage loans to capital also decreased as the size of the banks increased above $25 million, falling to 59.8 percent for banks with deposits of $100 million or more. In interpreting these data it should be borne in mind that the smaller banks are in the main in agricultural communities and hold considerable amounts of farm mortgage assets in addition to their residential loans, and that the larger, money-market banks participate in urban real estate financing indirectly in ways—e.g., through construction lending and loans to mortgage loan companies—that are not revealed by data on mortgage holdings alone.

State Distribution of Commercial Bank Urban Mortgage Investment

Nearly three-fourths of the $10.5 billion of urban mortgage loans held by insured commercial banks as of December 31, 1949 were reported by banks located in twelve states which accounted for only one-half of all banking offices and three-fourths of all time deposits (Table 3). Striking differences will be noted as regards the relative importance of urban mortgage loans among bank assets in these states. Such loans amounted to 16.9 percent of total bank assets in California, but only 2.7 percent in New York. The ratio to time deposits, on the other hand, showed less regional variation in these leading states, clustering for most of them around the average of 30 percent, though there were sharp deviations in three states—California, Illinois and Missouri. This would suggest that in a number of states, at least, the relatively high proportion of bank resources obtained through the acceptance of time deposits accounts for the relatively heavy holdings of urban mortgages. Missouri, however, is an exception. The greatest variation was in the relation of urban mortgage loans to capital. In California such loans amounted to more than three times bank capital, whereas in New York they were less than a third.

TABLE 3 — Loans Secured by Urban Properties as a Percentage of Total Assets, Time Deposits, and Total Capital of Insured Commercial Banks, Classified by Location of Bank, December 31, 1949 [a]

(dollar figures in millions)

Location of Bank	*Number of*		*Time Deposits* [b]	*Loans Secured by Urban Properties* [c]	*Loans Secured by Urban Properties as a Percentage of*		
	Banks	Offices			Total Assets	Time Deposits [b]	Total Capital [d]
12 States with Greatest Mortgage Outstandings	6,135	9,130	$25,832	$7,761	7.2%	30.0%	100.8%
California	195	1,143	5,380	2,390	16.9	44.4	313.6
New York	633	1,389	3,911	930	2.7	23.8	32.7
Pennsylvania	960	1,137	2,885	841	7.6	29.2	77.7
Ohio	649	864	2,488	677	8.7	27.2	142.8
New Jersey	328	479	1,987	545	11.1	27.4	167.7
Michigan	418	637	2,119	607	11.2	28.6	205.8
Illinois	874	877	2,968	416	3.1	14.0	54.5
Missouri	571	571	679	369	8.3	54.3	141.4
Wisconsin	543	693	1,241	286	9.1	23.0	150.5
Indiana	477	576	871	260	8.0	29.9	136.8
Massachusetts	175	343	740	229	5.2	30.9	63.1
Virginia	312	421	563	211	10.4	37.5	141.6
Other States, D.C., and U. S. Possessions	7,301	8,836	8,630	2,766	5.8	32.1	93.9
United States	*13,436*	*17,966*	*$34,462*	*$10,527*	*6.8%*	*30.5%*	*98.9%*

[a] Data on number of banking offices supplied by the Federal Deposit Insurance Corporation; other data are from Federal Deposit Insurance Corporation, *Assets and Liabilities, December 31, 1949, Operating Insured Commercial and Mutual Savings Banks,* Report No. 32.

[b] Excludes government and interbank time deposits.

[c] Includes both residential and other urban mortgage loans.

[d] Total capital includes the book value of capital notes, debentures, preferred and common stocks, surplus, undivided profits, and reserves other than for expenses.

Trends in Commercial Bank Urban Mortgage Lending, 1929–49

Total farm and nonfarm mortgage debt held by all commercial banks at the end of 1949 was $11.6 billion, or 18 percent of all mortgage debt outstanding in the United States (Table 4). Banks held 16 percent of all loans secured by farm properties and by one- to four-family dwellings and a larger proportion—22 percent—of the loans secured by multi-family and commercial properties. In other years for which data are available, commercial banks also held a larger proportion of all loans outstanding on multi-family and commercial properties than of those outstanding on other property types, though since 1941 they have held a slightly larger dollar amount in loans secured by one- to four-family dwellings than in loans secured by multi-family and commercial properties.

The relative importance of commercial banks in the mortgage market has varied considerably during the period 1929–49. During periods of mortgage credit expansion, commercial banks have in general, but not without exception, tended to increase their investment in mortgage loans more rapidly than other financial institutions and individuals and to withdraw from the mortgage market more rapidly than other investors during periods of contraction. For example, when total mortgage debt on one- to four-family dwellings declined from $19.5 billion in 1929 to $16.7 billion in 1936 and then increased to $37.3 billion in 1949, the proportion of this debt held by commercial banks declined from 10.1 percent in 1929 to 8.2 percent in 1936 and then rose to 16.4 percent in 1949 (Table 4). Data on mortgage debt secured by multi-family and commercial properties—available only since 1938—show the same direct correlation between volume of loans outstanding and proportion held by banks (Table 4). In this case, the proportion of mortgage loans held by commercial banks ranged from a low of 13.9 percent in 1944 to 22.8 percent in 1948, and in the following year showed a nominal decline to 22 percent. Although total mortgage debt on farm properties has increased only slightly in recent years, the commercial banks' share has risen from about 7 percent in the years 1934–38 to 16.3 percent in 1949.

Data on the relative importance of commercial banks in the urban mortgage market are shown in Table 4 for *all* commercial

TABLE 4 — TOTAL MORTGAGE DEBT OUTSTANDING AND PERCENT HELD BY ALL COMMERCIAL BANKS, BY TYPE OF PROPERTY, 1929–49[a]

(dollar figures in billions)

End of Year	Mortgage Debt Outstanding				Percent Held by Commercial Banks			
		Nonfarm				Nonfarm		
	Total	1- to 4-Family Dwellings	Multi-Family & Commercial	Farm	Total	1- to 4-Family Dwellings	Multi-Family & Commercial	Farm
1929	$47.0	$19.5	$17.8	$9.6	[b]	10.1%	[b]	10.4%
1930	47.8	19.6	18.8	9.4	[b]	9.9	[b]	10.1
1931	46.5	19.0	18.4	9.1	[b]	9.5	[b]	10.3
1932	44.0	17.9	17.7	8.5	[b]	9.3	[b]	10.5
1933	39.5	16.7	15.1	7.7	[b]	9.1	[b]	9.2
1934	38.4	17.0	13.9	7.6	[b]	7.1	[b]	6.6
1935	37.3	16.8	13.1	7.4	[b]	7.6	[b]	6.6
1936	36.6	16.7	12.8	7.2	[b]	8.2	[b]	6.8
1937	36.4	16.8	12.7	7.0	[b]	8.7	[b]	7.2
1938	36.5	17.1	12.7	6.8	10.9%	9.3	14.7%	7.7
1939	36.9	17.6	12.7	6.6	11.5	10.0	15.3	8.1
1940	37.7	18.4	12.9	6.5	12.0	10.5	16.1	8.4
1941	38.8	19.4	13.0	6.4	12.6	11.9	15.6	8.4
1942	37.9	19.2	12.7	6.0	12.5	12.3	14.9	8.0
1943	36.4	18.8	12.2	5.4	12.4	12.3	14.3	8.3
1944	35.7	18.8	12.0	4.9	12.4	12.2	13.9	9.1
1945	36.4	19.2	12.5	4.7	13.1	12.6	14.6	10.8
1946	42.8	23.6	14.4	4.8	16.9	15.7	19.7	14.3
1947	50.1	28.6	16.7	4.9	18.8	17.4	21.8	16.2
1948	57.5	33.5	19.0	5.1	18.9	17.0	22.8	16.6
1949	63.8	37.3	21.1	5.4	18.2	16.4	22.0	16.3

[a] All data except farm mortgage loans held by commercial banks are from Bureau of Foreign and Domestic Commerce, *Survey of Current Business,* October 1950, Tables 6 and 7, p. 15. Data for farm mortgage loans are from the Department of Agriculture and represent only loans held by insured commercial banks. However, insured commercial banks accounted for 98 percent of the total assets of all commercial banks at the end of 1949. Amounts do not always add to totals shown due to rounding.

[b] Not available.

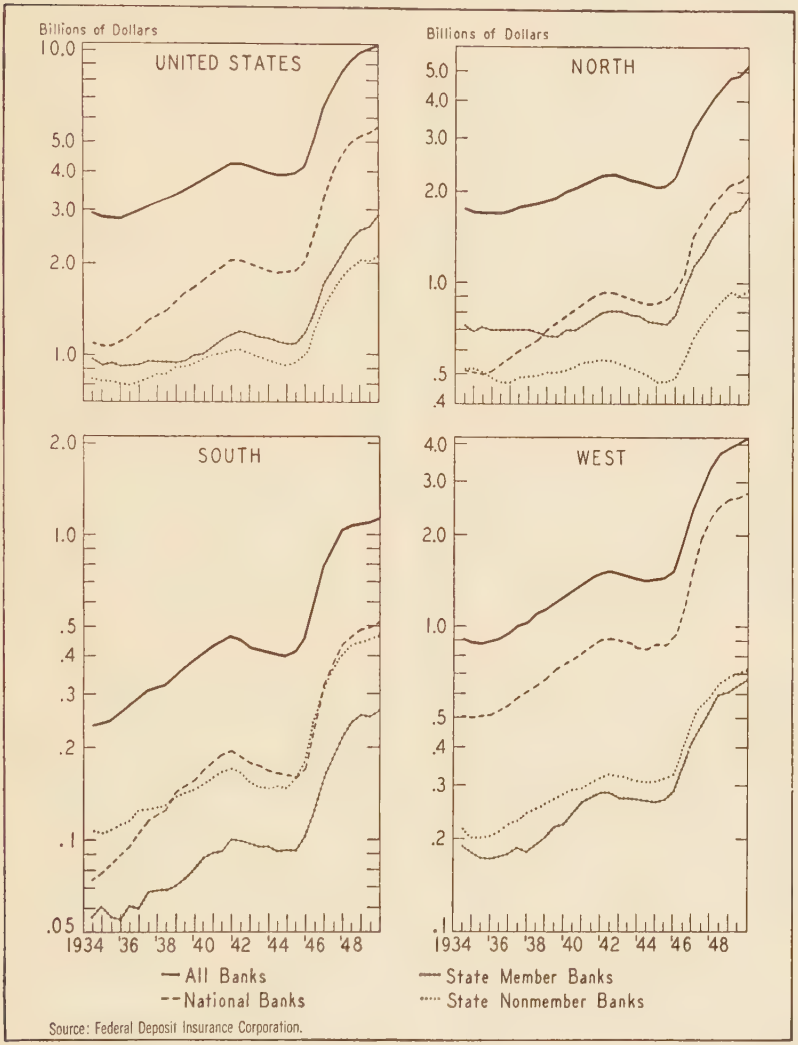
banks; however, in order to analyze changes in the amount of urban mortgage loans held by commercial banks and differences in rates of expansion according to type of bank and regional location of bank, it has been necessary to limit the study to total urban mortgage loans held by *insured* commercial banks, 1934–49 (Chart 1). This chart shows that, from a low point of $2.8 billion at the end of 1935, the

loans on residential and other properties of operating insured commercial banks rose to $10.5 billion at the end of 1949. All three types of banks—national, state member, and state nonmember—showed substantial gains during this period; it will be noted, however, that the gains in the two state bank groups occurred mostly in the postwar period, whereas the urban mortgage loans of national banks advanced sharply in the period 1935–41 as well as during the postwar period. This sharp increase after 1935 in the urban mortgage holdings of national banks is doubtless attributable in large part to the liberalization in that year of the national banking laws affecting mortgage loans as indicated in Chapter 1.

In each of the three areas shown separately in Chart 1 the series representing state member banks and state nonmember banks fluctuated similarly.[3] In the western states the fluctuations of the national bank series were also similar to those of the two state bank groups, but series for the northern and southern states on the volume of real estate loans made by national banks in the period 1934–38 increased more rapidly than the series for either of the state bank groups, and have maintained a lead in volume most of the time since 1934. In the northern states, state member bank holdings of urban mortgage loans were consistently higher than those of state nonmember banks, whereas the opposite has prevailed in the southern area. Over the whole period since 1934 bank loans have increased much more rapidly in the South and West than in the North.

[3] States in each region, including two or more census regions, are as follows: *North*—Connecticut, Illinois, Indiana, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin; *South*—Alabama, Delaware, Florida, Georgia, Kentucky, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia; *West*—Arizona, Arkansas, California, Colorado, Idaho, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming.

CHART 1 — URBAN MORTGAGE LOANS HELD BY NATIONAL, STATE MEMBER, AND STATE NONMEMBER INSURED COMMERCIAL BANKS, BY BROAD REGIONAL GROUPS, 1934–49



Urban mortgage loans of insured commercial banks increased about fivefold from 1934 to 1949, with banks in the South and West showing the greatest expansion. Loans of national banks rose especially rapidly after 1935, doubtless owing to the liberalizing effect of legislation.

Characteristics of Urban Mortgage Loans Made by Commercial Banks, 1920-47

THE purpose of this chapter is to attempt a description of the salient characteristics of the urban mortgage loans held by commercial banks as of June 1947, and to suggest some of the changes that have occurred in the types of such loans made by banks since 1920. In view of the fact that this type of information has not hitherto been available for the commercial banking system as a whole nor, indeed, for any segment of it, it has been necessary to compile new information on a sample basis.[1] The description of lending that is given for this sample of loans runs primarily in terms of such loan characteristics as type of property, type of loan (e.g., whether amortized or not), loan-to-value ratio, contract length and interest rate.[2]

Description of Sample

The sample survey of bank-made urban mortgage loans was started in the first half of 1946. A total of 496 commercial banks, holding on June 30, 1945 nearly 50 percent of the urban mortgage loan investments of all insured commercial banks, was selected to give a cross section of commercial bank mortgage loans, with the object of using data on these banks as a basis for estimating the urban mortgage loan investment of all commercial banks. Although only 170 banks returned usable loan samples, these held about one-third of all urban mortgage loans of commercial banks; response was best from banks

[1] Two additional sets of data became available after the completion of the statistical portions of this study. A supplementary schedule was sent to insured banks with the June 1950 call report with a request for additional information regarding their urban real estate loans and the extent to which they finance residential construction and residential mortgage lending by nonbank lenders. Also, the Bureau of the Census, in conjunction with the 1950 Decennial Census, has conducted a sample survey of mortgage financing.

[2] See Appendix A for a copy of the loan experience card on which banks were requested to report information concerning individual loans and of the instructions to banks for drawing their samples and completing the report forms.

with large urban mortgage portfolios and poorest from those with small portfolios. As will be seen in Table 5, loan samples were submitted by 25 out of the 34 sampled banks with urban mortgage loan portfolios of $7,860,000 and over, but by only 77 out of the 332 banks with portfolios of less than $2,000,000. Furthermore, some of the

TABLE 5 — Response of Insured Commercial Banks to the Urban Mortgage Loan Experience Survey, Classified by Size of Urban Mortgage Loan Portfolio [a]

	Portfolio Size (000)				
	Under $2,000	$2,000–4,000	$4,000–7,860	$7,860 & Over	*All Sizes*
Number of banks in U. S.	13,020	156	69	34	13,279
Number of banks sampled	332	68	62	34	496
Number of banks responding	77	33	35	25	170
Response ratio [b]	23%	49%	56%	74%	34%
Portfolio coverage [c]	4%	23%	52%	81%	34%
Number of loans reported	1,822	661	719	5,369	8,571

[a] Data are for holdings as of June 30, 1945.

[b] Represents the number of responding banks as a percentage of the number of banks sampled.

[c] Represents the outstanding balance of urban mortgage loans held by responding banks as a percentage of the total urban mortgage debt outstanding in all banks in the United States.

reporting banks failed to submit data on as many loans as were called for under the sampling procedure, and only 116 banks sampled their files of both active and inactive loans.[3] Therefore, the sample data are not used as a basis for national estimates of the characteristics of bank-held urban mortgage loans, but they are presented as a basis for indicating broadly the nature of urban mortgage loans made by banks since 1920 and of those held as of June 1947.[4]

[3] Banks with urban mortgage loan portfolios of $7,860,000 and over were asked to sample every 100th loan. In the case of banks with smaller portfolios different sampling intervals, depending on the size of their loan portfolios, were assigned so as to keep the "over-all" subsampling ratio constant—that is, equal to one out of 200 mortgages. In a few cases where the reporting bank did not submit as many loans as requested, its loan sample was inflated to correct for under-reporting. A full account of the sampling methods followed in this and other parallel institutional studies will be given in J. E. Morton's *Comparative Markets and Risk Experience of Mortgage Lenders,* one of the studies projected under the National Bureau's Urban Real Estate Finance Project.

[4] The sample is regarded as giving a picture of bank holdings of urban mortgage loans as of mid-1947 though not all banks reported as of that time. Sample returns were received from 170 banks between January 1, 1947 and April 30, 1948 as follows: 92 banks returned 4,104 schedules in the first half of 1947, 57 banks returned 1,956 schedules in the second half of 1947, and 21 banks returned 2,511 in the first four months of 1948.

Further light on how the responding banks differ from all banks may be gained from Table 6 in which the urban mortgage loan holdings of the 170 responding banks and of all insured commercial banks are distributed according to the location of the banks making

TABLE 6 — Percentage Distribution by Location of Bank of Amount of Urban Mortgage Loans Held by All Insured Commercial Banks, June 30, 1946 and of Amount Outstanding on 4,617 Loans Held by 170 Commercial Banks, June 1947, Classified by Size of Urban Mortgage Loan Portfolio [a]
(dollar figures in millions)

Census Region [b]	*Portfolio Size* [c]					
	Large		Medium		Small	
	Responding Banks	All Banks	Responding Banks	All Banks	Responding Banks	All Banks
North	*24.9%*	*31.0%*	*68.2%*	*61.1%*	*50.5%*	*60.0%*
New England	3.3	3.6	3.1	9.9	2.2	7.2
Middle Atlantic	8.1	8.4	58.0	29.5	32.6	27.9
East North Central	13.5	19.0	7.1	21.7	15.7	24.9
South	*.9*	*.7*	*14.1*	*15.1*	*11.4*	*17.2*
South Atlantic	.9	.7	13.5	12.5	9.3	12.3
East South Central	..	..	.6	2.6	2.1	4.9
West	*74.3*	*68.3*	*17.6*	*23.8*	*38.1*	*22.8*
West North Central	4.3	2.9	3.4	8.4	23.2	10.9
West South Central	..	.7	.5	2.8	5.3	5.3
Mountain	..	1.1	4.4	4.3	..	3.0
Pacific	70.0	63.6	9.3	8.3	9.6	3.6
United States	*$17*	*$1,520*	*$8*	*$1,150*	*$5*	*$2,450*
Percentage of Total Amt. Outstanding	57.2%	29.7%	27.0%	22.5%	15.8%	47.8%

[a] Data on insured commercial banks made available by the Federal Deposit Insurance Corporation.

[b] The distribution of states within each of the census regions is as follows: *New England*—Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; *Middle Atlantic*—New York, New Jersey, and Pennsylvania; *East North Central*—Ohio, Indiana, Illinois, Michigan, and Wisconsin; *South Atlantic*—Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, and Florida; *East South Central*—Kentucky, Tennessee, Alabama, and Mississippi; *West North Central*—Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas; *West South Central*—Arkansas, Louisiana, Oklahoma, and Texas; *Mountain*—Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada; *Pacific*—Washington, Oregon, and California.

[c] Large portfolios are those of $7,860,000 and over; medium-sized portfolios, those of $2,000,000 to $7,860,000; small-sized portfolios are those of less than $2,000,000.

the loans.[5] It will be observed that, in terms of loan investment, the regional distribution of the responding banks with large portfolios was closely similar to the regional distribution of all such banks, which was to be expected from the good coverage of this size-group of banks. However, among the banks with smaller portfolios, where the response was poorer, the differences in the regional distribution of responding banks and of all banks were considerably greater. Nevertheless, on a broad sectional basis the sample results, even for banks with small holdings, seem not to be seriously out of line with the actual distribution.

Commercial Bank Holdings of Urban Mortgage Loans, June 1947

TYPE OF PROPERTY

As indicated by the distribution of those sample loans on which there was an unpaid balance when the survey was made (Table 7), one- to four-family dwellings—consisting mainly of single family homes—accounted for about 90 percent of the number and 67 percent of the

TABLE 7 — Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, Classified by Type of Property
(dollar figures in thousands)

Type of Property	*Number of Loans*	*Amount Outstanding*	*Percentage Distribution*		*Average Amount Outstanding*
			No.	Amt.	
1- to 4-Family Dwellings	*4,218*	*$19,422*	*91.4%*	*66.5%*	*$4.6*
1-family	3,812	17,147	82.6	58.7	4.5
2- to 4-family	325	1,582	7.0	5.4	4.9
1- to 4-family with business use	81	693	1.8	2.4	8.6
All Other Property	*399*	*9,771*	*8.6*	*33.5*	*24.5*
Apartments	98	1,567	2.1	5.4	16.0
Stores	94	1,576	2.0	5.4	16.8
All other income property	207	6,628	4.5	22.7	32.0
Total	*4,617*	*$29,193*	*100.0%*	*100.0%*	*$6.3*

[5] Data on all insured commercial banks were not available according to the regional location of the properties securing the loans; however, for the 170 sample banks, the distribution according to location of properties securing the loans was approximately the same as the distribution according to the location of the banks.

amount of all loan balances.[6] Properties outside this class accounted for a much larger percentage of the amount than of the number of loan balances, since loans on them are ordinarily made for a larger original face amount. These consist mainly of loans secured by apartments, stores, and miscellaneous properties such as vacant lots, churches, garages, factories, etc.

PERIOD OF ORIGINATION

Most sample loans outstanding in June 1947—whether secured by one- to four-family dwellings or by larger residential and other income-producing properties—were originally made some time after 1939 (Table 8). In fact, about 65 percent of the number and 75 per-

TABLE 8 — SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, CLASSIFIED BY TYPE OF PROPERTY AND PERIOD MADE

(dollar figures in thousands)

Period Made	*Number of Loans*	*Amount Outstanding*	*Percentage Distribution*		*Amt. Outst. as % of Orig. Amt.*
			No.	Amt.	
		1- to 4-Family Dwellings			
1920-24	34	$105	.8%	.5%	54.7%
1925-29	83	205	2.0	1.1	46.4
1930-34	42	176	1.0	.9	42.1
1935-39	401	986	9.5	5.1	56.2
1940-44	884	2,667	20.9	13.7	68.9
1945-47 [a]	2,774	15,284	65.8	78.7	92.1
Total [b]	*4,218*	*$19,422*	*100.0%*	*100.0%*	*83.4%*
		All Other Property			
1920-24	2	$49	.5%	.5%	56.3%
1925-29	20	240	5.0	2.5	54.2
1930-34	6	174	1.5	1.8	25.3
1935-39	24	442	6.0	4.5	59.5
1940-44	84	1,734	21.1	17.7	70.1
1945-47 [c]	263	7,132	65.9	73.0	88.3
Total	*399*	*$9,771*	*100.0%*	*100.0%*	*78.1%*

[a] Includes seventy-five loans made in 1948.
[b] Dollar amount does not add to total shown due to rounding.
[c] Includes three loans made in 1948.

[6] The term sample as used in this sentence, and henceforth, refers to the loans returned by responding banks. Also, sample banks will mean banks actually responding to requests for samples of their loans.

cent of the amount of loans outstanding in June 1947 were made after 1944. Regardless of the size of the portfolio under consideration the sample data show that as of mid-1947 there had been, on the average, less than a 20 percent repayment of the original face amount.

SIZE AND TYPE OF LOAN

At mid-1947, the loans made by commercial banks on one- to four-family properties were usually for original amounts of less than $10,000 (Table 9). Loans made by banks with large portfolios of urban mortgage loans were somewhat larger than those made by banks with small portfolios, doubtless indicating that the large-portfolio banks are mainly in metropolitan areas where residences of higher unit value are concentrated. Outstanding balances on one- to four-family dwellings averaged $5,000 in 1947 for banks with large portfolios, $4,900 for banks with medium-sized portfolios, and $3,400 for those with small portfolios. Loans on other than one- to four-family properties, being designed for the financing of different types of buildings, varied more in average size. Thus, 70 percent of the number of such loans outstanding in June 1947 had been made for an original amount of less than $20,000 while more than 80 percent of the amount then outstanding consisted of loans that had had an original face amount of $20,000 or more (Appendix Table B1).

Table 9 also shows some interesting facts concerning the types of urban mortgage loans held by sample commercial banks in 1947. It will be seen that regardless of the size of a bank's holdings of such loans, most of those made on one- to four-family dwellings were fully amortized, and provided for a monthly schedule of repayment.[7] Almost 70 percent of the outstanding amount of these loans held by the large portfolio banks were insured; banks with medium-sized and small portfolios had about 50 percent and 43 percent, respectively, of their mortgage investment in insured loans. Responding banks with large portfolios concentrated particularly on Veterans' Administration loans, having nearly half of their outstandings in the one- to four-family category invested in this type of insured loan; banks with medium-sized and small portfolios had only about one-quarter of their total urban mortgage investment in this type of

[7] See Appendix Table B2 for data on repayment schedules.

TABLE 9 — PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, BY ORIGINAL LOAN AMOUNT AND TYPE OF LOAN, CLASSIFIED BY TYPE OF PROPERTY AND SIZE OF URBAN MORTGAGE LOAN PORTFOLIO

(dollar figures in thousands)

Loan Characteristics	*Portfolio Size* [a]					
	LARGE		MEDIUM		SMALL	
	No. of Loans	Amt. Outst.	No. of Loans	Amt. Outst.	No. of Loans	Amt. Outst.
	1- to 4-Family Dwellings					
ORIGINAL LOAN AMOUNT						
Less than $5,000	44.6%	23.1%	51.5%	25.9%	69.4%	43.3%
5,000 – 9,999	47.0	58.8	39.2	42.8	26.5	42.8
10,000 – 19,999	7.9	15.9	8.2	16.8	3.8	11.4
20,000 and over	.5	2.2	1.1	14.5	.3	2.5
TYPE OF LOAN [b]						
Insured	*59.4*	*68.5*	*51.3*	*49.4*	*35.9*	*43.3*
VA	31.6	47.9	16.8	21.7	18.1	27.0
FHA	27.8	20.6	34.5	27.7	17.8	16.3
Noninsured	*40.5*	*31.4*	*48.6*	*50.5*	*64.1*	*56.7*
Fully amortized	23.8	19.2	24.7	18.8	40.7	33.2
Partially amortized	13.2	10.4	11.8	20.9	17.9	19.9
Nonamortized	3.5	1.8	12.1	10.8	5.4	3.5
Total	*2,669*	*$13,285*	*612*	*$2,973*	*937*	*$3,163*
	All Other Property					
ORIGINAL LOAN AMOUNT						
Less than $5,000	30.9%	3.9%	12.5%	.6%	31.3%	6.7%
5,000 – 9,999	28.0	7.4	15.6	2.2	14.8	8.0
10,000 – 19,999	19.4	8.8	25.0	5.0	26.6	25.1
20,000 and over	21.7	79.8	46.9	92.3	27.3	60.2
TYPE OF LOAN [b]						
Insured	*13.7*	*3.4*	*6.2*	*1.5*	*7.8*	*2.9*
VA	8.0	2.4	5.2	1.3	7.8	2.9
FHA	5.7	1.0	1.0	.2	..	..
Noninsured	*85.6*	*96.3*	*93.8*	*98.5*	*92.2*	*97.1*
Fully amortized	43.4	20.2	44.8	22.1	50.0	45.5
Partially amortized	37.1	50.2	34.4	70.0	26.6	31.0
Nonamortized	5.1	25.9	14.6	6.4	15.6	20.6
Total	*175*	*$3,406*	*96*	*$4,910*	*128*	*$1,455*

[a] For the definition of portfolio size, see Table 6, footnote c. For data on all portfolio sizes combined, see Appendix Table B1.

[b] Excludes a few loans for which data on type of loan were not available.

loan.[8] Finally, it will be seen that about 45 percent of the number and about a fifth of the amount of outstanding loans on all other properties in banks with large and medium-sized portfolios were of the conventional, fully amortized type (Table 9). In banks with small portfolios loans of this type accounted for about half the number and slightly less than half the amount of loans on properties other than one- to four-family dwellings.

CONTRACT TERMS

Such characteristics of commercial bank urban mortgage loans as length of contract, loan-to-value ratio, and contract interest rate are, of course, influenced, in the case of VA-guaranteed and FHA-insured loans, by the maximum terms provided by the federal statutes under which they are insured. As will be seen in Table 10, which shows the contract terms of these loans separately from the terms of the so-called noninsured conventional loans, most insured loans on one- to four-family dwellings of responding banks had contract lengths of twenty years or more, loan-to-value ratios of 80 percent and over, and interest rates of 4.0 to 4.9 percent. Insured loans that did not fit into this pattern of contract terms had original maturities of from fifteen to nineteen years, loan-to-value ratios of from 70 to 79 percent and interest rates of from 5.0 to 5.9 percent (Table 10). The contract terms on noninsured sample loans secured by one- to four-family properties were distinctly less liberal than those on insured sample loans. Maturities were mainly for periods of less than fifteen years and loan-to-value ratios were usually between 40 and 69 percent. On contract interest rates the degree of concentration was less pronounced, with rates ranging from 4.0 percent to over 6.0 percent.

Only 10 percent of the number of sample loans secured by other than one- to four-family properties were insured (Table 10). Contract terms on these mortgages followed about the same general pattern as those for noninsured conventional one- to four-family dwelling loans, though they were made at somewhat lower interest rates.

[8] Percentages of VA-guaranteed loans secured by one- to four-family dwellings are somewhat greater when expressed in terms of amount instead of number of loans, since the average amount outstanding on them was from $5,000 to $7,500 while for fully amortized loans this ranged from $2,800 to $4,000, and for FHA-insured loans from $3,100 to $3,900.

TABLE 10 — PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, BY TYPE OF LOAN AND CONTRACT TERMS, CLASSIFIED BY TYPE OF PROPERTY [a]

(dollar figures in thousands)

Contract Terms	*1- to 4-Family Dwellings*		*All Other Property*	
	Number of Loans	Amount Outstanding	Number of Loans	Amount Outstanding
CONTRACT LENGTH				
Insured Loans [b]				
0 – 14 years	3.9%	2.9%	5.3%	1.3%
15 – 19	7.6	6.8	.8	.1
20 and over	41.6	51.8	4.0	.9
Noninsured Loans				
0 – 4 years	10.2	6.2	19.8	17.2
5 – 9	18.0	12.0	40.4	27.5
10 – 14	16.5	17.9	27.6	52.1
15 and over	2.2	2.4	2.0	.8
LOAN-TO-VALUE RATIO [c]				
Insured Loans [b]				
Under 60%	1.7	1.3	1.0	.4
60 – 69	2.4	2.1	.5	.2
70 – 79	8.2	7.4	2.0	.4
80 and over	40.2	50.2	5.0	1.1
Noninsured Loans				
Under 40%	6.0	3.0	18.2	8.3
40 – 59	25.7	19.4	46.4	30.9
60 – 69	12.7	12.4	14.5	18.5
70 and over	2.3	3.4	9.8	36.2
CONTRACT INTEREST RATE				
Insured Loans [b]				
Under 4.0%	.1	.1	.8	[d]
4.0 – 4.9	47.0	58.1	8.3	2.2
5.0 – 5.9	5.9	3.2	1.0	.1
Noninsured Loans				
Under 4.0%	.4	.4	4.5	14.1
4.0 – 4.9	12.3	14.1	36.3	66.2
5.0 – 5.9	19.4	17.2	32.1	12.3
6.0 and over	14.8	6.8	16.8	5.0
Total	*4,218*	*$19,422*	*399*	*$9,771*

[a] Excludes loans for which data on type of loan and contract terms were not available.

[b] Includes FHA-insured and VA-guaranteed loans.

[c] Represents original loan amount as a percentage of appraised value of property.

[d] Less than .05 percent.

CURRENT INTEREST RATES

Because such a large percentage of the sample loans that were still outstanding when the samples were drawn had been on the books for only a short time, most of them having been made in 1940 or later, little difference was found between their original contract rates of interest and the rates which they carried when the samples were drawn, i.e., the current (or last) rates.[9] As shown in Table 11, the average of the current interest rates on noninsured loans was 4.8 per-

TABLE 11 — AVERAGE CURRENT INTEREST RATES FOR A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, CLASSIFIED BY TYPE OF PROPERTY AND TYPE OF LOAN [a]

Type of Loan	*1- to 4-Family Dwellings*		*All Other Property*	
	Number of Loans	Interest Rate [b]	Number of Loans	Interest Rate [b]
Insured	*2,237*	*4.2%*	*40*	*4.1%*
VA	1,116	4.0	29	4.0
FHA	1,121	4.5	11	4.5
Noninsured	*1,978*	*4.8*	*358*	*4.1*
Fully amortized	1,167	4.9	183	4.3
Partially amortized	592	4.6	132	4.0
Nonamortized	219	4.7	43	4.1
Total	*4,218*	*4.4%*	*399*	*4.1%*

[a] Excludes a few loans for which data on type of loan were not available.
[b] Weighted in each case by the outstanding balance of each loan.

cent for loans secured by one- to four-family dwellings and 4.1 percent for loans secured by all other properties. The interest rates on insured loans secured by these two types of property are fixed, of course, by the terms of the insurance or guaranty arrangements; FHA-insured sample loans bore a 4.5 percent rate and VA-guaranteed loans a 4.0 percent rate.[10]

The effect of government loan insurance and guaranty arrangements has been to standardize interest rates in all areas of the coun-

[9] See Appendix Table B3 for a distribution of loans by current interest rates.

[10] The indicated pattern of interest rates on bank-held urban mortgage loans is roughly similar to that characteristic of the urban mortgage loans of life insurance companies. Compare R. J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, Financial Research Program, 1950) Chapter 4.

try and on all types of loans eligible for insurance or guaranty; consequently, in seeking to discover significant bases of differentials in interest rates, the analysis is limited to the noninsured or conventional loans. An examination of current interest rates suggests certain regional differences in the costs of mortgage funds. On noninsured loans secured by one- to four-family dwellings, current interest rates were substantially the same—about 4.5 percent—in seven of the nine census regions (Table 12). In the Mountain and Pacific regions, however, the average current interest rates were higher—5.7 and 5.1 percent, respectively. In interpreting these regional differentials it should be recalled that the loans still on the books when the bank samples were drawn were originated at different times and that the observed differences in regional averages may be due to differences in the age distributions of the loans. This would be an important factor in explaining the relatively high rates on loans secured by one- to four-family properties in the Pacific region, for example, since, as will be seen in Table 15, their rates were relatively high as compared with other regions in the earlier years, though this difference has been largely eliminated in loans made after 1939.

Current interest rates were less standardized regionally on loans secured by other than one- to four-family dwellings, doubtless because of the comparatively heterogeneous nature of these properties. For the sample group of conventional income-producing property loans, the average interest rate was relatively high on those reported in the Mountain and Pacific regions. Loans secured by properties located in the South Atlantic and West North Central regions bore interest rates which, on the average, were relatively low but this result is probably due mainly to the influence of a few large-sized loans carrying low interest rates.

Turning to the relationship between interest rates and other terms of the mortgage contract, it will be noted in Table 12 that the average current interest rate on noninsured loans secured by one- to four-family dwellings was lowest (4.5 percent) on loans with contract lengths of fifteen years or more and loan-to-value ratios of 70 percent and over; loans on which these credit terms were more stringent had an average current interest rate of 4.8 percent. Again, this differential may be due to a difference in the number of years the loans of different descriptions had been on the books, though

TABLE 12 — AVERAGE CURRENT INTEREST RATES FOR A SAMPLE OF NON-INSURED URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, CLASSIFIED BY TYPE OF PROPERTY, PROPERTY LOCATION AND LOAN CONTRACT TERMS [a]

Loan Characteristics	*1- to 4-Family Dwellings*		*All Other Property*	
	Number of Loans	Interest Rate [b]	Number of Loans	Interest Rate [b]
CENSUS REGION [c]				
North	*823*	*4.5%*	*169*	*4.1%*
New England	48	4.5	17	4.0
Middle Atlantic	271	4.5	81	4.1
East North Central	504	4.6	71	4.2
South	*149*	*4.6*	*32*	*3.6*
South Atlantic	121	4.7	30	3.6
East South Central	28	4.5	2	[d]
West	*1,006*	*5.0*	*157*	*4.2*
West North Central	176	4.3	39	3.5
West South Central	12	4.7	10	4.2
Mountain	20	5.7	4	4.7
Pacific	798	5.1	104	
CONTRACT LENGTH				
0 – 4 years	429	4.7	79	4.2
5 – 9	758	4.9	162	4.2
10 – 14	698	4.8	110	4.0
15 – 19	72	4.5	5	4.4
20 and over	21	4.4	2	
LOAN-TO-VALUE RATIO [e]				
Under 40%	251	4.9	73	4.0
40 – 59	1,084	4.9	185	4.3
60 – 69	537	4.8	58	4.2
70 – 79	37	4.4	16	3.4
80 and over	61	4.3	23	4.1
ORIGINAL LOAN AMOUNT				
Less than $5,000	1,274	5.1	85	5.2
5,000 – 9,999	563	4.8	68	4.7
10,000 – 19,999	119	4.6	89	4.5
20,000 – 49,999	20	4.5	77	4.7
50,000 – 99,999	..	..	23	4.2
100,000 and over	2	[d]	16	3.7
Total	*1,978*	*4.8%*	*358*	*4.1%*

[a] Excludes loans for which data on type of loan and loan-to-value ratio were not available.

[b] Weighted in each case by the outstanding balance of each loan.

[c] For the states included in each census region, see Table 6, footnote [b].

[d] Interest rate not given, since data were available for only two loans.

[e] For a definition of loan-to-value ratio, see Table 10, footnote [c].

there is some basis for expecting that the interest rate differential represents a real difference in the risk quality of the loans. Interest rates on noninsured loans secured by other than one- to four-family properties showed no definite relationship to contract lengths or loan-to-value ratios. For sample loans secured by each of the two property types, there was, however, a definite tendency for the interest rate to decline as the size of the loan increased.

Changes in Mortgage Loan Contract Terms, 1920–47

Some of the changes that have occurred since 1920 in mortgage loan contract terms are suggested by the loan sample data submitted by 116 commercial banks, each of which drew loans from its active and inactive files. Reporting banks returned data on 6,370 loans representing $45.7 million. Nearly 60 percent of the number and amount of these loans were made in the period 1935 to 1947. In terms of number of loans, these were made mainly on one- to four-family dwellings located in the Middle Atlantic, East North Central, and Pacific regions (Table 13).

The sample suggests, first, that there has been a decided shift since 1920 from the nonamortized to the amortized loan: in the 1920–34 period, from 40 to 45 percent of all sample loans on one- to four-family dwellings were nonamortized, while only about 5 percent of those made in the period 1940–47 were of this type (Table 14). However, even before the introduction of insured loans in 1934 about 40 percent of the number of sample loans made were on a partially amortized basis and about 15 percent were fully amortized. Partial amortization has remained a comparatively common characteristic of loans secured by other than one- to four-family properties, accounting for about 40 percent of the number of sample loans made from 1920 through 1944 and 26 percent of those made in the 1945–47 period. Full amortization was less common in the early years of the period studied: only about 9 percent of the number of those loans made in the 1920–34 period were fully amortized as compared with about 50 percent of those made in 1940–47.

Second, the sample data show that, with the exception of the years 1927–29 and 1933, the average contract interest rate declined over the period, falling rather gradually from 6.1 percent on straight mortgage loans made in 1921 on one- to four-family dwellings to 5.8

TABLE 13 — Percentage Distribution of a Sample of Urban Mortgage Loans Made by 116 Commercial Banks by Period Made and Property Location, Classified by Type of Property, 1920–47 [a]

(dollar figures in thousands)

Period Made and Census Region	*1- to 4-Family Dwellings*		*All Other Property*		*All Property*	
	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.
PERIOD MADE						
1920-24	12.7%	11.5%	11.5%	13.5%	12.6%	12.4%
1925-29	19.5	20.9	21.5	15.2	19.7	18.2
1930-34	7.2	7.2	9.3	12.3	7.5	9.6
1935-39	18.0	15.7	16.7	12.9	17.8	14.4
1940-44	24.4	22.6	19.8	14.1	23.8	18.6
1945-47	18.1	22.0	21.1	31.9	18.4	26.7
CENSUS REGION [b]						
North	*64.0*	*67.6*	*58.7*	*73.2*	*63.4*	*70.2*
New England	2.6	3.7	5.0	4.9	2.8	4.2
Middle Atlantic	16.2	20.8	20.0	52.1	16.7	35.5
East North Central	45.2	43.1	33.7	16.2	43.9	30.5
South	*6.3*	*6.7*	*6.1*	*7.4*	*6.2*	*7.0*
South Atlantic	5.4	5.7	5.8	7.4	5.4	6.5
East South Central	.9	1.0	.3	[c]	.8	.5
West	*29.7*	*25.7*	*34.9*	*19.2*	*30.3*	*22.6*
West North Central	7.2	6.0	6.0	5.2	7.0	5.6
West South Central	2.0	1.8	2.7	1.4	2.1	1.6
Mountain	1.3	1.2	.4	.1	1.2	.7
Pacific	19.2	16.7	25.8	12.5	20.0	14.7
Total	*5,626*	*$24,213*	*744*	*$21,502*	*6,370*	*$45,715*

[a] Excludes a few loans for which data on period made or census region were not available.

[b] For the states included in each census region, see Table 6, footnote [b].

[c] Less than .05 percent.

percent on those made in 1934, and thereafter more rapidly to 4.4 percent for loans made in 1946 (Chart 2).[11] The contract interest

[11] Contract terms on real estate sales contracts and purchase money mortgages were also examined according to period made and compared with the terms on straight mortgages for the same period. From the available sample data on loans made on one- to four-family dwellings and other property, there would seem to be no significant difference in interest rates when the two types of contracts were compared by period; however, contract lengths and loan-to-value ratios were slightly more liberal on real estate sales contracts and purchase money mortgages. See Appendix Table B4 for a comparison of terms on straight mortgages and purchase money mortgages.

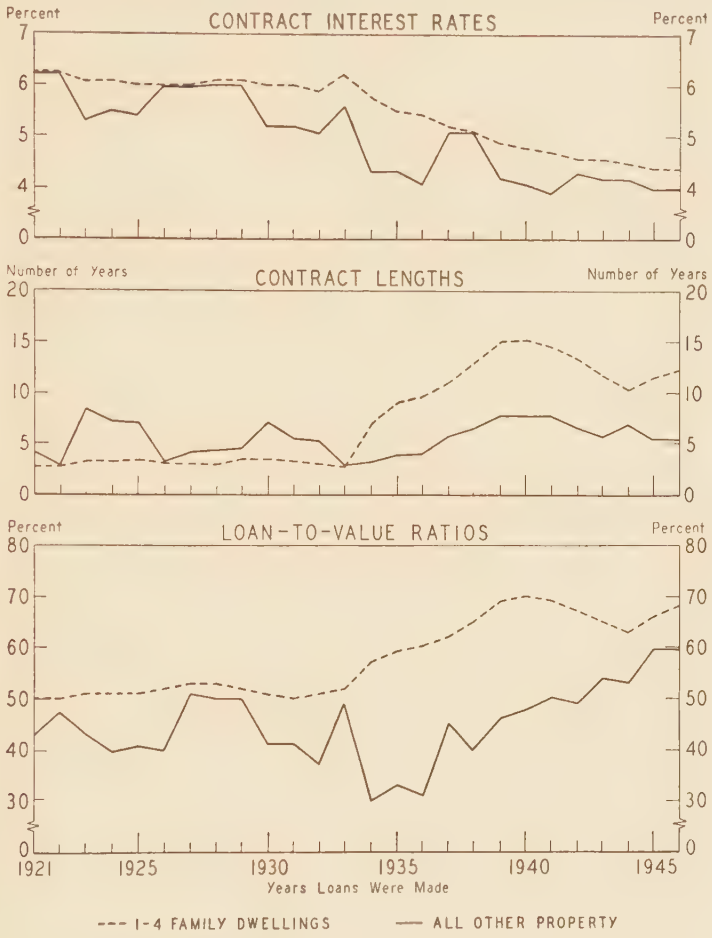
TABLE 14 — PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS BY TYPE OF LOAN, CLASSIFIED BY PERIOD MADE, 1920–47 [a]

(dollar figures in thousands)

Type of Loan	1920–24		1925–29		1930–34		1935–39		1940–44		1945–47	
	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.	No. of Loans	Orig. Amt.
1- to 4-Family Dwellings												
Insured	..	..	..	..	.2%	.1%	41.8%	48.6%	44.5%	50.6%	38.3%	41.2%
VA	..	..	..	..	..	..	..	..	..	..	25.5	28.4
FHA	..	..	..	..	.2	.1	41.8	48.6	44.5	50.6	12.8	12.8
Noninsured	99.1%	98.7%	99.2%	98.9%	99.0	98.9	58.0	51.3	55.4	49.3	61.4	58.1
Fully amortized	15.4	14.7	16.0	10.2	16.9	13.4	24.7	20.3	26.0	22.3	31.4	27.3
Partially amortized	42.0	43.5	37.6	38.3	37.7	35.3	20.7	20.7	24.0	23.3	23.9	27.1
Nonamortized	41.7	40.5	45.6	50.4	44.4	50.2	12.6	10.3	5.4	3.7	6.1	3.7
Not Available	.9	1.3	.8	1.2	.7	1.0	.2	.2	.1	.1	.4	.7
Total	714	$2,781	1,097	$5,060	408	$1,749	1,012	$3,794	1,371	$5,464	1,017	$5,336
All Other Property												
Insured	..	..	..	..	..	..	4.0%	.8%	1.4%	2.8%	7.0%	1.1%
VA	..	..	..	..	..	..	..	..	..	..	5.7	1.0
FHA	..	..	..	..	..	..	4.0	.8	1.4	2.8	1.3	.1
Noninsured	100.0%	100.0%	99.3%	99.8%	98.5%	97.6%	93.6	96.9	96.6	96.6	92.4	98.7
Fully amortized	5.8	2.4	10.6	7.5	10.1	4.8	35.5	13.8	41.5	19.6	56.1	27.8
Partially amortized	40.7	9.2	43.1	38.8	39.1	45.1	36.3	31.4	44.9	74.3	26.1	52.3
Nonamortized	53.5	88.4	45.6	53.5	49.3	47.7	21.8	51.7	10.2	2.7	10.2	18.6
Not Available	..	..	.6	.2	1.4	2.4	2.4	2.3	2.0	.5	.6	.1
Total	86	$2,896	160	$3,264	69	$2,643	124	$2,766	147	$3,027	157	$6,871

[a] Excludes a few loans for which data on period made were not available.

CHART 2 — Contract Interest Rates, Contract Lengths, and Loan-to-Value Ratios for a Sample of Straight Urban Mortgage Loans Made by 116 Commercial Banks, 1921–46 [a]



[a] Three-year moving averages of interest rates, contract lengths, and loan-to-value ratios, each weighted by three-year moving averages of original loan amounts. Data in Appendix Table B5.

After 1933, interest rates on commercial bank real estate loans declined steadily, maturities more than doubled in length, and loan-to-value ratios increased by almost twenty percentage points.

rate on sample loans secured by all other types of property, as shown in Chart 2, varied considerably more from year to year than the rate on small dwelling loans, doubtless due to the small number of such loans included in the loan sample and to changes from year to year in the average size of the loans included; but the general movement of rates was downward, the average dropping from 6.2 percent in 1921 to 4.0 percent in 1946.

This general downward movement from 1920 to 1947 in contract interest rates on straight mortgages secured by both one- to four-family and all other types of property was characteristic of loans made in each of the three broad sections of the United States—namely, the northern, southern, and western states (Table 15). Limiting attention to loans of the conventional noninsured type, it will be observed that interest rates on sample one- to four-family dwelling loans made from 1920 to 1939 were generally higher for properties located in the West than for those located in the North and South. In the period 1940–47, however, this differential had largely been eliminated and interest rates on noninsured loans secured by one- to four-family dwellings were about the same for the West as for the other two sections, with a consequently greater decline in rates in the West. This growing regional uniformity of interest rates probably reflects some shifting of mortgage funds as well as the influence on the market of government facilities for loan insurance or guarantee. The relatively rapid expansion of mortgage loans in the West was apparent in Chart 1.

Interest rates on noninsured sample loans secured by income-producing properties were generally lowest in the North and highest in the West for the four periods analyzed from 1920 to 1939. However, during the period 1940–47 current interest rates on sample loans were lowest in the South and highest in the North, though this result may be due to the inclusion of a number of unusually large loans in the small number of sample loans secured by properties located in the South. The data are not shown here, but a more detailed breakdown of sample loans by census regions indicates that interest rates on income-property loans made in the 1940–47 period were probably more uniform among regions than were the rates on loans made in the earlier periods.

The average contract length on the straight mortgage loans in the sample that were made prior to 1934 on one- to four-family

TABLE 15 — AVERAGE CONTRACT INTEREST RATES FOR A SAMPLE OF STRAIGHT URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS, CLASSIFIED BY PROPERTY LOCATION, TYPE OF LOAN AND PERIOD MADE, 1920–47

Type of Loan and Period Made	*North*		*South*		*West*		*United States*	
	No. of Loans	Interest Rate [a]	No. of Loans	Interest Rate [a]	No. of Loans	Interest Rate [a]	No. of Loans	Interest Rate [a]
				1- to 4-Family Dwellings				
Insured								
1935-39	128	4.9%	4	[b]	148	4.9%	280	4.9%
1940-47	360	4.3	13	4.3%	213	4.4	587	4.3 [c]
Noninsured								
1920-24	376	6.1	18	6.0	175	6.5	569	6.2
1925-29	579	5.9	85	6.0	225	6.5	889	6.0
1930-34	177	5.8	2	[b]	152	6.4	333	6.0 [c]
1935-39	219	5.3	9	4.9	159	5.7	397	5.5
1940-47	672	4.7	17	4.8	223	4.6	912	4.7
				All Other Property [d]				
Noninsured								
1920-24	42	5.2	1	[b]	22	6.5	66	5.3 [c]
1925-29	95	5.8	10	6.0	37	6.4	143	5.9 [c]
1930-34	28	5.1	2	[b]	31	6.1	61	5.3
1935-39	31	4.1	2	[b]	35	5.4	68	4.4
1940-47	108	4.1	8	3.2	64	3.9	180	4.0

[a] Weighted in each case by the original amount of each loan.
[b] The interest rates have been omitted since the sample includes fewer than five loans.
[c] Includes a few loans for which data on property location were not available.
[d] Since there were only nine insured sample loans in the *All Other Property* category, these loans have been omitted.

dwellings was roughly three years, and the loan-to-value ratio about 50 percent. In 1934, however, the introduction of loan insurance increased the average contract length to seven years, and the average loan-to-value ratio to 57 percent. As indicated by Chart 2, these two contract terms continued to ease through 1940, but after that year there appears to have been a temporary tightening of terms, followed by a renewed relaxation in 1945. By 1946, the average contract length on loans made on one- to four-family dwellings was twelve years and the average loan-to-value ratio 68 percent.

The loan sample suggests that long-term changes in contract terms have been less marked for loans on income-producing properties than for those on small residential structures. The former have been made by banks mainly for an average maturity of from three to eight years: loan-to-value ratios have ranged between 37 and 51 percent on loans made from 1921 to 1940 (except for such depressed years as 1934–36), but since 1940 this ratio has shown some tendency to increase.

CHAPTER 4

Urban Mortgage Loan Experience of Commercial Banks, 1920-47

THE question that may now be considered is whether differences in the conditions under which commercial banks make urban mortgage loans, and in the characteristics of these loans, are related to loan experience. There are several different measures of loan experience: the number of times contracts have been modified; the proportion of the different types of loans that have been foreclosed; the gain or loss on foreclosed properties; and the yield actually realized on these loans as compared to the yield promised when they were made. Unfortunately, data hitherto available are inadequate for the measurement of loan experience by any one of these methods. A few loan experience studies have been made by individual banks but because they cover different periods and stress different loan characteristics these fail to provide experience data that can be evaluated on a uniform basis. In order to overcome this deficiency in available information the sampled commercial banks described in Chapter 3 were requested to furnish data on samples of loans made since 1920. These materials provide the basis for this chapter's discussion of commercial bank mortgage loan experience.

The response to the request for loan histories was less favorable than anticipated, especially from banks with relatively small loan portfolios, but the sample results are at least suggestive of loan experience generally. The data underestimate the severity of foreclosure experience because the sample banks were necessarily drawn from surviving institutions. In any event, the sample data are the most adequate currently available on commercial bank mortgage loan experience.

Modifications of Contract Terms

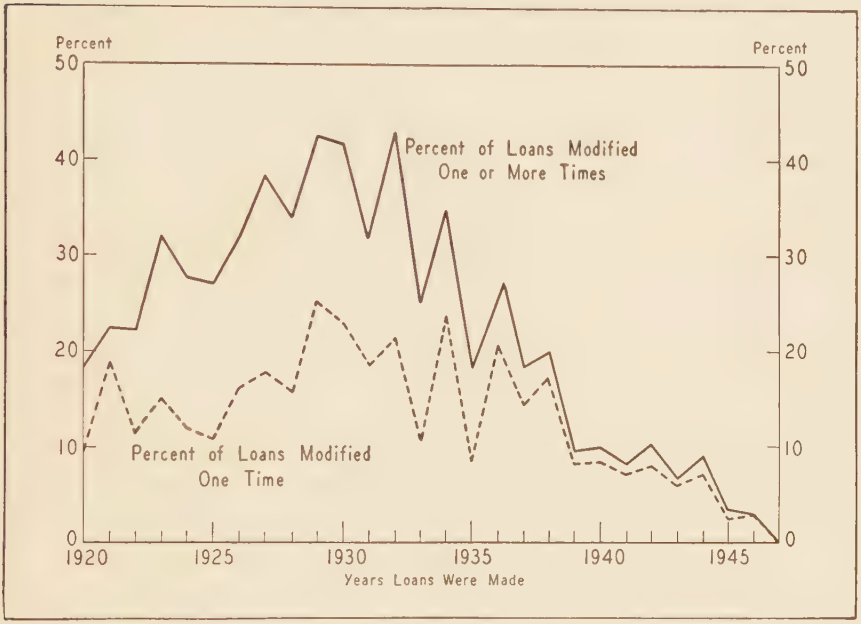
The record of loan experience of responding banks suggests that modifications of loan contract terms are by no means infrequent.

They may occur either to adapt the loan contract terms to some change in the mortgagor's ability to repay the debt, or to make the contract terms—where credit conditions have been eased—conform to those current in the market, and they may take various forms. The most frequent types of modifications are: (1) the advance of additional funds to the mortgagor, (2) the reduction of unpaid principal by compromise, (3) the extension of a loan's maturity or its renewal for an added term, (4) a change, generally a reduction, in the interest rate, and (5) a change in the loan's general type, such as would result from the placing of an unamortized loan on an amortized basis. The chances that an individual loan will be modified in one or more of these ways will increase with the length of time the loan is on the books, but it would appear that these chances are also affected by the year in which the loan was made. Sample data have not been analyzed to show differences in the types of modifications, but, in order to reveal the flexibility of loan terms, tabulations have been made of the number and original amount of loans made in different years that were modified one or more times.

As shown in Chart 3, the percentage of sample loans made in a given year that were modified one or more times varied considerably over the period 1920–47 It was about 40 percent for loans made at the end of the twenties as against 20 percent for those made at the beginning. The rate continued high for loans made through 1932, and then fell off. The higher modification rate on loans made in the late twenties than on those made in the early twenties was due in part, of course, to the fact that by the time reductions in individual incomes had placed mortgage loans under stress a relatively large percentage of the loans made in the early period had been paid off. Also, the earlier loans that were still outstanding must have been, on the average, better seasoned by that time than those that were made in the last half of the twenties. This differential modification experience parallels the foreclosure experience which will be reviewed later in this chapter. It should also be observed that the low level of interest rates current in the thirties as compared with that prevailing during the twenties doubtless stimulated a good many of the loan modifications, primarily for those loans in good standing, and accounts in part for the substantially higher frequency of modifications on loans made in the twenties. Of course, this difference is

also affected by the fact that the longer a loan is outstanding the greater is its chance, other things equal, of being modified.

CHART 3 — NUMBER OF LOANS EVENTUALLY MODIFIED AS A PERCENTAGE OF NUMBER OF LOANS MADE FOR A SAMPLE OF URBAN MORTGAGE LOANS FROM 116 COMMERCIAL BANKS, 1920–47



Many of the mortgage loans made by responding commercial banks during the twenties were modified in one or more respects prior to their extinguishment. Loans made in 1927–32 were modified with greatest frequency.

Further data on differential modification experience for loans made in different periods are provided in Table 16, which shows that sample loans secured by two- to four-family dwellings and income-producing properties generally tended to be modified more frequently than those secured by single family homes. Only 15 percent of all loan contracts made from 1920 to 1947 on single family properties were modified, compared with 26 percent of the contracts secured by other property types. Also, the sample data suggest that urban mortgage loans made by banks with small portfolios of such loans were modified less frequently than loans made by banks with

TABLE 16 — Number and Original Amount of Loans Eventually Modified as a Percentage of Number and Original Amount of Loans Made for a Sample of Urban Mortgage Loans of 116 Commercial Banks, Classified by Number of Times Modified, Period Made, Type of Property and Size of Urban Mortgage Loan Portfolio, 1920–47

Loan Characteristics	Number of Times Modified									
	1		*2*		*3*		*4 to 8*		*Total*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
PERIOD MADE										
1920-24	13.0%	44.1%	6.9%	4.8%	4.4%	2.4%	1.5%	1.7%	25.8%	53.0%
1925-29	16.5	17.1	12.5	16.1	3.7	5.4	1.4	2.5	34.1	41.1
1930-34	20.1	18.8	10.1	20.2	3.8	28.4	2.1	1.8	36.1	69.2
1935-39	13.2	12.4	2.8	19.2	.9	.7	.2	.1	17.1	32.4
1940-44	7.3	11.0	1.2	.8	.1	.4	.2	.2	8.8	12.4
1945-47	2.1	1.9	.2	.1	..	..	.1	[a]	2.4	2.0
TYPE OF PROPERTY										
1-family [b]	9.4	8.5	3.9	5.1	1.4	2.5	.6	.8	15.3	16.9
2- to 4-family [b]	15.0	14.2	7.9	7.3	3.7	4.3	.5	.7	27.1	26.5
All other	15.2	20.2	7.6	11.4	2.1	5.6	1.2	.9	26.1	38.1
PORTFOLIO SIZE [c]										
Large	12.4	22.3	6.3	5.1	1.8	1.9	.8	1.1	21.3	30.4
Medium	12.7	7.4	4.6	15.8	2.6	9.0	1.0	.6	20.9	32.8
Small	7.2	9.4	2.6	3.5	1.2	1.3	.4	.9	11.4	15.1
Total	*10.9%*	*14.7%*	*4.9%*	*8.4%*	*1.8%*	*4.2%*	*.7%*	*.9%*	*18.3%*	*28.2%*

[a] Less than .05 percent. [b] With no business use. [c] For the definition of portfolio size, see Table 6, footnote [c].

large and medium-sized portfolios (Table 16). In part, this doubtless indicates that banks with small mortgage portfolios invested a larger proportion of their funds in loans on single family properties.

An analysis of sample data on the relation between various characteristics of loan contract terms and the number of times bank-held mortgage loans have been modified shows that fully amortized loans with long original maturities have been modified less frequently than nonamortized, short-maturity loans (Table 17). This fact can probably be attributed in large part to the frequent extensions of short-term mortgage contracts, a fairly common type of modification.[1] Finally, for sample loans made from 1920 to 1934, modifications appear to have been more frequent on those with relatively low interest rates and low loan-to-value ratios. Again, this relatively high frequency of modifications is probably due to other characteristics, such as original loan term, that tend to be associated with relatively low interest rates and low loan-to-value ratios.

Foreclosure Experience

As a preface to this analysis of foreclosure experience on urban mortgage loans made by commercial banks, it will be useful to note that when the sample survey was taken 31.4 percent of the number of reported loans that had been made since 1920 were still outstanding, 54.8 percent had been paid off, small percentages had been either transferred to the Home Owners' Loan Corporation or sold or assigned to other individuals or institutions, and 3.2 percent had been either foreclosed or terminated by voluntary surrender of deed (Table 18).[2]

[1] The analysis of contract terms has been restricted to sample loans made from 1920 to 1934 in order to avoid any influence on the percentages of loans placed after 1934, when economic conditions had changed.

[2] This is a substantially better over-all foreclosure experience than that of the insurance companies studied for the same period under a broadly similar loan sampling method. The insurance companies foreclosed 8.2 percent of the number and 11.4 percent of the amount of the mortgage loans which they made on urban properties from 1920 to 1946. Even if the loans on single family properties are the only ones considered, it is found that insurance company experience was less favorable than that reported for commercial banks. While the reason for this difference in experience is not clear it may merely reflect the fact that the commercial bank loan sample, as compared with the insurance company sample, is biased in favor of better experience since it necessarily excludes loans made by banks that failed during the period covered whereas there were no failures among the important insurance company mortgage lenders. See R. J. Saulnier, *Urban Mortgage Lending by Life Insurance Companies* (National Bureau of Economic Research, Financial Research Program, 1950) Chapter 6.

TABLE 17 — Number and Original Amount of Loans Eventually Modified as a Percentage of Number and Original Amount of Loans Made for a Sample of Urban Mortgage Loans of 116 Commercial Banks, Classified by Number of Times Modified and Loan Contract Terms, 1920–34

Contract Terms	Number of Times Modified									
	1		*2*		*3*		*4 to 8*		*Total*	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
TYPE OF LOAN										
Fully amortized	7.3%	10.6%	4.2%	4.5%	3.1%	5.8%	..	..	14.6%	20.9%
Partially amortized	15.1	17.8	14.2	23.1	2.8	4.7	.9%	1.6%	33.0	47.2
Nonamortized	20.2	33.9	8.9	9.1	5.3	14.2	2.7	2.8	37.1	60.0
CONTRACT INTEREST RATE [a]										
5.0 – 5.9%	17.8	51.4	9.9	9.9	5.0	25.0	3.0	2.0	35.7	88.3
6.0 – 6.9	16.3	19.0	11.3	11.5	4.0	5.3	1.4	2.1	33.0	37.9
7.0 – 7.9	15.2	15.7	5.1	5.8	3.5	6.2	1.9	3.6	25.7	31.3
8.0 and over	9.1	4.2	9.1	7.3	..	..	4.5	4.5	22.7	16.0
LOAN-TO-VALUE RATIO [b]										
Under 40%	17.1	10.5	8.0	32.5	3.1	5.6	2.7	3.1	30.9	51.7
40 – 59	17.1	34.3	11.2	10.9	4.1	5.4	.8	1.3	33.2	51.9
60 – 79	11.8	13.7	9.3	11.9	4.2	5.8	2.4	4.8	27.7	36.2
80 and over	10.7	15.4	7.1	8.4	..	..	7.1	8.6	24.9	32.4
CONTRACT LENGTH										
0 – 4 years	18.5	18.6	12.6	12.2	4.5	14.5	1.8	2.1	37.4	47.4
5 – 9	10.7	18.1	5.6	15.2	3.1	6.3	1.2	4.2	20.6	43.8
10 – 14	12.1	56.9	3.0	16.8	1.8	.3	..	..	16.9	74.0
15 – 19	..	..	..	..	..	..	..	..	..	..
20 and over	6.3	5.8	6.2	3.9	3.1	18.3	..	..	15.6	28.0
Total	*16.1%*	*25.9%*	*10.3%*	*13.6%*	*3.9%*	*9.9%*	*1.5%*	*2.1%*	*31.8%*	*51.5%*

[a] Excludes two loans with interest rates of less than 5 percent.

[b] For a definition of loan-to-value ratio, see Table 10, footnote [c].

TABLE 18 — OVER-ALL EXPERIENCE ON A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS, 1920–47
(dollar figures in thousands)

Loan Status	*Number of Loans*		*Original Amount*	
	Number	Percent	Amount	Percent
Outstanding, June 1947	2,002	31.4%	$18,502	40.5%
Paid off	3,492	54.8	21,222	46.4
Transferred to HOLC	143	2.3	645	1.4
Sold or assigned	531	8.3	3,606	7.9
Foreclosed [a]	202	3.2	1,740	3.8
Total	*6,370*	*100.0%*	*$45,715*	*100.0%*

[a] Includes a few loans terminated by voluntary surrender of deed.

Differences are readily apparent in the relative frequency of foreclosure on loans of different characteristics. Perhaps the most striking and regular relationship between the characteristics of commercial bank mortgage loans and their subsequent experience is that revealed by a study of foreclosure rates on sample loans made in different years (Table 19). These data reveal very clearly the tendency for a higher percentage of the mortgage loans made during periods of relatively high construction activity, high real estate values, and high levels of business and personal income to go to foreclosure than for loans made under less favorable economic conditions. Thus, the sample loans made in the period 1920–24 had a better than average foreclosure experience, as did those made in the periods 1935–39 and 1940–47, though in the latter case the loans had been outstanding for too short a time to test their quality. On the other hand, the mortgage loans made in the period 1925–29, particularly those made in 1928 and 1929 and to a somewhat lesser degree those made in 1930–34, had a substantially worse than average experience. Of the sample loans closed in the years 1925–29, 11.1 percent of the number and 14.7 percent of the original amount were eventually foreclosed, while of the loans made in 1928, 12.9 percent of the number and 18.5 percent of the amount were foreclosed. With respect to the number of loans, this foreclosure experience conforms closely to that of life insurance companies.

The relationship of other factors to mortgage loan investment experience may be seen best if the analysis is restricted to sample loans made prior to 1930, in order to include loans of roughly the

TABLE 19 — FORECLOSURE RATES FOR A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS, CLASSIFIED BY YEAR MADE, 1920–47

(dollar figures in thousands)

Year Made	Loans Made		Loans Foreclosed		Foreclosure Rate[a]	
	Number	Amount	Number	Amount	Number	Amount
1920	103	$429	2	$6	1.9%	1.4%
1921	85	304	3	7	3.5	2.3
1922	158	594	3	10	1.9	1.7
1923	207	984	4	24	1.9	2.4
1924	247	3,366	9	55	3.6	1.6
1920-24	*800*	*5,677*	*21*	*102*	*2.6*	*1.8*
1925	283	2,000	29	270	10.2	13.5
1926	242	1,739	25	232	10.3	13.3
1927	266	1,389	27	160	10.2	11.5
1928	263	2,004	34	370	12.9	18.5
1929	203	1,193	25	193	12.3	16.2
1925-29	*1,257*	*8,325*	*140*	*1,225*	*11.1*	*14.7*
1930	162	971	11	84	6.8	8.7
1931	151	1,548	10	65	6.6	4.2
1932	61	1,192	4	17	6.6	1.4
1933	48	285	1	3	2.1	1.1
1934	55	397	..	..	.0	.0
1930-34	*477*	*4,393*	*26*	*169*	*5.5*	*3.8*
1935	142	1,505	2	24	1.4	1.6
1936	175	999	5	72	2.9	7.2
1937	229	1,106	5	51	2.2	4.6
1938	239	1,269	1	95	.4	7.5
1939	351	1,681	1	1	.3	.1
1935-39	*1,136*	*6,560*	*14*	*243*	*1.2*	*3.7*
1940	371	2,170	..	..	.0	.0
1941	345	1,719	..	..	.0	.0
1942	293	1,321	1	1	.3	.1
1943	243	1,082	..	..	.0	.0
1944	266	2,199	..	..	.0	.0
1945	313	4,623	..	..	.0	.0
1946	701	6,460	..	..	.0	.0
1947	160	1,123	..	..	.0	.0
1940-47	*2,692*	*20,697*	*1*	*1*	[b]	[b]
Total	*6,370*[c]	*$45,715*[c]	*202*	*$1,740*	*3.2%*	*3.8%*

[a] Foreclosure rate equals the number and original amount of loans made in a given year and eventually foreclosed as a percentage of the number and original amount of all loans made in that year. [b] Less than .05 percent.

[c] Includes eight loans with a value of $63,300 for which data on year made were not available.

same characteristics and to exclude those made under the changed economic conditions of the thirties, and if the experience records on loans secured by one- to four-family properties and all other types of properties are considered separately. The available data on this segment of sample loans have been arranged in Table 20, which shows that the foreclosure rate on loans made on one- to four-family dwellings from 1920 through 1929 was about 7 percent, as compared with 12 percent on all other properties, while in terms of dollar amounts it was 9 and 11 percent, respectively.

Considering first the loans made on one- to four-family dwellings, it is apparent that the rate of foreclosure did not differ very greatly on loans having different characteristics. Certain differences, however, can be noted: (1) loans placed in the South (though meagerly represented in the sample) seem to have had a higher rate of foreclosure, while the experience on those in western states was somewhat better than average; (2) the foreclosure rate on fully amortized loans appears to have been slightly lower than that on partially and nonamortized loans; and (3) sample loans with high loan-to-value ratios generally showed somewhat higher than average foreclosure rates. In the analysis of sample returns, length of loan contract and contract interest rate seem to bear no consistent relation to the rate of foreclosure; in any event, most loans were made with fairly standard characteristics in these respects. It should be borne in mind, of course, that the above comparisons are based on only a small number of foreclosures, though the fact that the indicated experience conforms with what would be expected on the basis of general knowledge of mortgage lending tends to give greater weight to the results.

Considering next the loans secured by all other properties, there seems to be no close correspondence between their foreclosure rates and those of loans made on one- to four-family dwellings, except as it shows up regionally. The experience of banks with both types of mortgage loans was relatively much better in the West than in either the North or South. In the case of contract length, foreclosure rates for loans maturing in five to nine years were unusually high, in sharp contrast to those on loans carrying the same maturity in the one- to four-family category. Relatively high foreclosure rates seem also to be correlated with an interest rate of from 6.0 to 6.9 percent; and in terms of amount, foreclosures were largest on the partially amortized loans.

TABLE 20 — Foreclosure Rates for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, Property Location, and Loan Contract Terms, 1920–29 [a]

(dollar figures in thousands)

Loan Characteristics	1- to 4-Family Dwellings				All Other Property			
	Loans Made		*Foreclosure Rate* [b]		*Loans Made*		*Foreclosure Rate* [b]	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
GEOGRAPHIC REGION [c]								
North	1,270	$5,810	8.0%	8.9%	161	$4,875	15.5%	12.0%
South	122	630	13.9	16.7	14	343	14.3	5.8
West	419	1,402	3.1	4.0	69	897	5.8	5.1
TYPE OF LOAN								
Fully amortized	286	922	6.6	6.0	22	312	13.6	8.6
Partially amortized	712	3,149	7.6	8.4	104	1,535	12.5	20.7
Nonamortized	798	3,675	7.4	9.7	119	4,307	10.9	7.1
CONTRACT LENGTH								
0 – 4 years	1,232	5,030	7.8	10.8	179	2,644	8.9	10.0
5 – 9	424	2,192	4.7	3.9	48	993	20.8	36.3
10 – 14	127	481	11.8	9.4	12	2,411	16.7	.9
15 – 19	8	45	3.6	2.5	..	..	..	..
20 and over	20	95			7	112	14.3	5.4
CONTRACT INTEREST RATE								
4.0 – 4.9%	..	..	..	..	3	127	7.1	3.6
5.0 – 5.9	61	578	6.6	1.8	11	2,382		
6.0 – 6.9	1,452	6,405	8.1	9.7	183	3,254	12.6	15.8
7.0 – 7.9	284	833	3.5	5.5	43	370	10.2	11.7
8.0 and over	14	26	7.1	3.1	6	27		
LOAN-TO-VALUE RATIO [d]								
Under 40%	292	781	2.7	3.6	66	1,107	9.1	6.6
40 – 59	1,192	5,500	7.7	8.1	141	4,390	14.2	11.9
60 – 79	245	1,241	11.9	14.7	26	521	10.7	10.2
80 and over	8	39			2	24		
Total	*1,811*	*$7,842*	*7.3%*	*8.6%*	*246*	*$6,160*	*11.8%*	*10.6%*

[a] Excludes loans for which data on type of loan, property location, or loan-to-value ratio were not available.

[b] Represents the number and original amount of loans made during 1920–29 which were eventually foreclosed as a percentage of the number and original amount of all loans made during 1920–29.

[c] For the states included in each region, see Table 6, footnote [b].

[d] For a definition of loan-to-value ratio, see Table 10, footnote [c].

The Disposal of Foreclosed Properties

Real estate investment experience may also be analyzed by studying the experience of banks with those foreclosed properties reported on individually in the sample of loans referred to earlier. This sample of 6,370 loans produced 202 foreclosures and the properties had, in

all cases, been disposed of by the time the sample was drawn. For individual cases the following information was given: (1) the amount originally loaned on the property; (2) the amount of the bank's investment in the property at the time of foreclosure (defined as the unpaid balance of the loan at foreclosure plus any amounts paid out in taxes, insurance, etc., any unpaid interest not already capitalized into the unpaid balance, and any foreclosure costs); (3) the proceeds of any deficiency judgments; (4) the net income (or deficit) on the operation of the property while it was held as real estate (i.e., rent and other income less taxes, insurance, costs of repairs, improvements and management, and any commissions paid on the property sale); and (5) the ultimate sales price. From these data the gain or loss on the whole transaction can be derived: from the sum of the sales price of the property, the proceeds of any deficiency judgments, and the net income (or less the net deficit) on property operation is subtracted the amount of the bank's investment in the property at the time of foreclosure.

Each of the disposed-of properties is classified in Table 21 accord-

TABLE 21 — NUMBER OF FORECLOSED PROPERTIES AND GAIN OR LOSS, CLASSIFIED BY PERCENTAGE OF GAIN OR LOSS, 1920–47 [a]

Gain or Loss as Percentage of Bank's Investment at Foreclosure	*Number of Foreclosures*	*Gain or Loss*	
		Total	Average
Gain	*35*	*$18,705*	*$534*
40.0% and over	5	3,105	621
39.9 – 30.0	3	3,046	1,015
29.9 – 20.0	4	3,793	948
19.9 – 10.0	7	5,636	805
9.9 – 0.0	16	3,125	195
Loss	*167*	*542,236*	*3,247*
0.1 – 9.9%	40	17,725	443
10.0 – 19.9	30	31,586	1,053
20.0 – 29.9	30	82,337	2,745
30.0 – 39.9	35	120,590	3,445
40.0 – 49.9	14	85,851	6,132
50.0 – 59.9	6	44,976	7,496
60.0 – 69.9	6	129,272	21,545
70.0 or more	6	29,899	4,983
Total	*202*	*$—523,531*	*$—2,592*

[a] Includes only one loan made after 1939.

ing to the extent of the gain or loss sustained, with gains and losses expressed as percentages of the bank's investment in the property at foreclosure. Of the 202 properties, 35 were sold at a gain and 167 at a loss. The over-all loss for all 202 properties averaged $2,592; those that were sold at a profit averaged a gain of $534 and those sold at a deficit averaged a loss of $3,247. Most of the properties—165 of the 202 cases—were disposed of on a basis that varied from a gain of under 10 percent to a loss of less than 50 percent (Table 21). For all foreclosed properties in the sample, the average loss was 30.1 percent of the original amount of the funds loaned on the property and 26.7 percent of the amount of the bank's investment at the time of foreclosure (Table 22).[3]

The question of whether the period in which the property was sold affected loss experience is answered indirectly in Table 22. Experience is shown in this table according to the period in which the loan was made and the period in which the property was sold. The principal conclusion to be drawn is that for the period covered properties held for the longest time, regardless of when the loans on the foreclosed properties were made, showed the greatest eventual loss. This is traceable to the fact that commercial banks found properties costly to operate and to the apparent tendency for investors to sell first the properties that could be sold most favorably. The improvement of the real estate market during the years following 1934 was not enough to make the less attractive properties salable without loss.

Finally, the sample results also show, as will be observed in Table 23, that the least unsatisfactory experience in property disposal was on one- to four-family dwellings and on those sales resulting from loans made on a fully amortized basis. In general, contract lengths, contract interest rates, and loan-to-value ratios do not seem to bear a consistent relationship to the rate of gain or loss; however, it is possible that some relationships would become apparent if the sample were larger.

[3] This small difference in the two measures of loss reflects the fact that most properties were foreclosed soon enough after the loans were made to make little difference between their original amount and the amount of the bank's investment at foreclosure. Also, some loan balances were increased by the capitalization of delinquent interest and other charges that had to be absorbed by the lender, such as taxes and insurance.

TABLE 22 — Liquidation Experience on Foreclosed Properties for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Period of Loan Origination and Property Disposal, 1920–47

(dollar figures in thousands)

Period of Loan Origination	*Period of Property Disposal*	*Loans Foreclosed and Sold*			*Loss as Percentage of*	
		No. of Loans	Orig. Loan Amt.	Investment at Foreclosure	Orig. Loan Amt.	Investment at Foreclosure
		1- to 4-Family Dwellings				
1920–24	*1935–47*	*19*	*$96*	*$101*	*19.4%*	*18.5%*
	1935–39	11	48	56	19.2	16.3
	1940–47	8	48	45	19.5	20.8
1925–29	*1925–47*[a]	*113*	*580*	*672*	*24.0*	*20.7*
	1930–34	24	126	131	10.0	9.6
	1935–39	64	327	395	24.2	20.0
	1940–47	24	126	145	37.1	32.2
1930–34	*1930–47*[b]	*21*	*112*	*137*	*27.7*	*22.8*
	1935–39	15	58	70	17.1	14.1
	1940–47	4	38	49	57.4	45.2
1935–39	*1940–47*	*6*	*42*	*38*	*14.8*	*16.3*
	Total	*159*	*$830*	*$948*	*23.5%*	*20.6%*
		All Property				
1920–24	*1925–47*[a]	*21*	*$102*	*$109*	*18.6%*	*17.4%*
	1935–39	12	53	62	17.1	14.6
	1940–47	8	48	45	19.5	20.8
1925–29	*1925–47*[a]	*140*	*1,225*	*1,382*	*29.3*	*26.0*
	1930–34	25	131	162	9.7	7.8
	1935–39	79	653	721	26.5	24.0
	1940–47	35	440	498	39.2	34.6
1930–34	*1930–47*[c]	*26*	*170*	*256*	*25.6*	*17.0*
	1935–39	17	74	155	23.1	11.1
	1940–47	6	74	78	35.3	33.6
1935–39	*1940–47*[d]	*14*	*243*	*211*	*42.0*	*48.3*
	Total[e]	*202*	*$1,740*	*$1,958*	*30.1%*	*26.7%*

a Includes one property sold in 1925–29.
b Includes two properties sold in 1930–34.
c Includes three properties sold in 1930–34.
d Includes one property sold in 1935–39.
e Includes one loan made in 1940–47 for which the property was foreclosed and sold in the same period.

TABLE 23 — Liquidation Experience on Foreclosed Properties for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, Property Location and Loan Contract Terms, 1920–47 [a]
(dollar figures in thousands)

Loan Characteristics	*1- to 4-Family Dwellings*			*All Other Property*		
	No. of Loans	Orig. Loan Amt.	Loss as % of Orig. Loan Amt.	No. of Loans	Orig. Loan Amt.	Loss as % of Orig. Loan Amt.
GEOGRAPHIC REGION [b]						
North	117	$585	26.9%	32	$787	37.6%
South	18	120	.9	4	56	17.7
West	24	125	28.9	7	67	34.2
TYPE OF LOAN						
Fully amortized	22	69	5.8	8	74	21.5
Partially amortized	67	330	18.1	20	513	42.0
Nonamortized	70	431	30.4	15	323	30.0
CONTRACT LENGTH [c]						
0 – 4 years	120	673	26.2	20	286	44.9
5 – 9	21	100	13.6	17	437	23.6
10 – 14	17	54	10.7	5	182	52.7
CONTRACT INTEREST RATE						
Under 5.0%	..	..	..	3	154	41.3
5.0 – 5.9	7	43	8.1	6	118	
6.0 – 6.9	130	692	24.0	28	584	33.6
7.0 and over	22	95	27.0	6	54	37.4
LOAN-TO-VALUE RATIO [d]						
Under 40%	10	31	43.9	6	73	72.1
40 – 59	107	516	21.4	27	586	25.5
60 – 79	31	223	21.1	6	77	50.5
80 and over	9	45	43.6	4	174	
Total	*159*	*$830*	*23.5%*	*43*	*$910*	*36.1%*

[a] Excludes a few loans for which data on loan-to-value ratio were not available; includes one loan made after 1939.
[b] For the states included in each region, see Table 6, footnote [b].
[c] Excludes two loans with contract terms of twenty years and over.
[d] For a definition of loan-to-value ratio, see Table 10, footnote [c].

Expected and Realized Yields, and Loss Rates

In conclusion, the expression of urban mortgage loan experience in terms of the expected and realized yields on individual loans of different types will be considered. By expected or promised yield is meant the original contract interest rate on the loans; averages of

expected yields are computed for different groups of loans by weighting the original interest rates of all loans in the group by the original loan amounts. For loans paid off without interest rate modification the expected and realized yields are equivalent, but the two diverge where interest rates have been modified and also, of course, in the case of foreclosed loans.

On modified loans the rate obtaining at the time the loan was extinguished, weighted by the amount of the loan at time of origination, was taken as the realized rate. This procedure was adopted for reasons of economy, though in most cases it probably underestimates somewhat the true realized yield. A somewhat more complex procedure was required in computing realized yields on foreclosed loans. In this case, the gross income of the whole transaction was taken to be the sum of (1) the original contract rate of interest multiplied by the average amount of the outstanding loan balance (an average of the original loan amount and the unpaid principal at foreclosure) and by the number of years the loan was outstanding and (2) the amount of the gain (or loss) sustained on the operation and sale of the foreclosed real estate. This gross income was then expressed as a percentage of the amount of the lender's investment in the joint loan and real estate transaction. The latter was estimated as the average amount of the outstanding loan balance multiplied by the number of years the loan was outstanding plus the amount of the bank's investment in the property at foreclosure multiplied by the number of years the real estate was held before disposal.[4]

For the entire sample of loans originated and terminated in the period 1920–47 the expected and realized yields were 5.40 and 4.97 percent, respectively (Table 24). The difference between these two yields—0.43 percent—may be termed the per annum loss rate which when related to the average loan investment determines the amount of income that should have been set aside each year from the gross

[4] Using the notations of the mortgage loan experience card (Appendix A), the realized yield on foreclosed properties was computed as follows:

$$\textit{Realized Yield} = \frac{H_5\left(\frac{H_2 + K_4}{2}\right)(J_5 - H_1) \pm K_{16}}{\left(\frac{H_2 + K_4}{2}\right)(J_5 - H_1) + K_9(K_1 - J_5)}$$

It should be noted that rates computed in this way are only first approximations to the compound interest rates usually used as norms in finance.

income of the entire portfolio in order to build up a reserve (disregarding interest accumulations on the investment of reserve funds) sufficient to have met the full amount of the losses sustained over the whole period. It will also be observed from Table 24 that in the sample results the loss rate on single family dwellings and stores was lower than that on other property types and, furthermore, that the realized yield was higher on single family homes and two- to four-family dwellings with no business use than on other property types.

TABLE 24 — EXPECTED YIELDS, REALIZED YIELDS, AND LOSS RATES FOR A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS, CLASSIFIED BY PROPERTY TYPE, 1920–47 [a]

Type of Property	*Expected Yield*	*Realized Yield*	*Loss Rate*
1- to 4-Family Dwellings	*5.58%*	*5.27%*	*.31%*
1-family	5.53	5.25	.28
2- to 4-family	5.78	5.42	.36
1- to 4-family with business use	5.68	5.17	.51
All Other Property	*5.18*	*4.57*	*.61*
Apartments	5.43	4.00	1.43
Stores	4.63	4.48	.15
All other	5.31	4.77	.54
Total	*5.40%*	*4.97%*	*.43%*

[a] Includes a few loans not shown in Table 18 of this chapter. Some loans necessarily discarded in the earlier part of the study were usable for this part of the analysis and it was considered preferable to include these in order to make the sample as large as possible. For data on number and original amount of loans used in the yield analysis, see Appendix Table B6.

The effect on the ultimate outcome of a mortgage loan of the economic conditions prevailing at the time the loan is originally made was commented on above in connection with the discussion of foreclosure rates. We can now see how economic conditions affected the realized yields on sample loans. As will be observed in Table 25, loans made in the period 1920–24 had both relatively low loss rates and the highest realized yields, whether we consider loans on one- to four-family structures or loans on all other types of property combined. Loss rates were most unfavorable on the loans made in the 1925–29 and 1930–34 periods, again on both broad property types. Despite high loss rates on loans made in the years 1925–34, however, the realized yields on loans made in these years, including loans se-

cured by both property types, were higher than the expected yields for loans made after 1935, due to the greatly reduced level of interest rates.

TABLE 25 — Expected Yields, Realized Yields, and Loss Rates for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property and Period Made, 1920–47 [a]

Period Made	*1- to 4-Family Dwellings*			*All Other Property*		
	Expected Yield	Realized Yield	Loss Rate	Expected Yield	Realized Yield	Loss Rate
1920–24	6.14%	5.99%	.15%	5.38%	5.35%	.03%
1925–29	6.04	5.37	.67	5.96	4.94	1.02
1930–34	6.13	5.53	.60	5.71	4.44	1.27
1935–39	5.21	5.10	.11	4.27	3.59	.68
1940–47	4.69	4.68	.01	4.26	4.23	.03
Total	*5.58%*	*5.27%*	*.31%*	*5.18%*	*4.57%*	*.61%*

[a] For data on number and original amount of loans used in the yield analysis, see Appendix Table B7.

In view of changed economic conditions after 1929 it has seemed appropriate, in considering other details of loan experience, to consider only those loans made in the years 1920–29. Thus, in Table 26 expected and realized yields and loss rates are given for sample loans made in the period 1920–29 on the two broad types of property. In general, low loss rates and high realized yields have gone together on loans secured by one- to four-family properties. The evidence of the sample suggests that the best records, with respect to both loss rate and realized yield, were produced by those loans made on a fully amortized basis, with long contract periods, low loan-to-value ratios, and relatively high interest rates. The record of experience for loans secured by properties other than the one- to four-family type is less regular and consistent, doubtless because of the smaller number of such loans on which the experience data were available.

TABLE 26 — EXPECTED YIELDS, REALIZED YIELDS, AND LOSS RATES FOR A SAMPLE OF URBAN MORTGAGE LOANS MADE BY 116 COMMERCIAL BANKS, CLASSIFIED BY TYPE OF PROPERTY, PROPERTY LOCATION AND LOAN CHARACTERISTICS, 1920–29 [a]

Loan Characteristics	*1- to 4-Family Dwellings*			*All Other Property*		
	Expected Yield	Realized Yield	Loss Rate	Expected Yield	Realized Yield	Loss Rate
GEOGRAPHIC REGION [b]						
North	5.98%	5.47%	.51%	5.49%	4.96%	.53%
South	5.98	5.26	.72	5.86	4.90	.96
West	6.51	6.23	.28	6.49	6.09	.40
SIZE OF PORTFOLIO [c]						
Large	6.15	5.74	.41	5.53	5.03	.50
Medium	5.93	4.73	1.20	5.94	5.51	.43
Small	6.02	5.79	.23	6.02	4.93	1.09
TYPE OF LOAN						
Fully amortized	6.25	6.12	.13	5.59	5.21	.38
Partially amortized	6.04	5.56	.48	6.14	4.59	1.55
Nonamortized	6.07	5.47	.60	5.53	5.32	.21
CONTRACT LENGTH						
0 – 4 years	6.14	5.57	.57	6.08	5.62	.46
5 – 9	5.94	5.55	.39	6.15	3.89	2.26
10 – 14	6.18	5.95	.23	5.14	5.09	.05
15 and over	6.10	5.98	.12			
CONTRACT INTEREST RATE						
5.0 – 5.9% [d]	5.17	4.69	.48	5.01	5.13	+.12
6.0 – 6.9	6.03	5.53	.50	6.06	5.03	1.03
7.0 and over	7.03	6.65	.38	7.07	5.98	1.09
LOAN-TO-VALUE RATIO [e]						
Under 40%	6.35	6.11	.24	6.04	5.11	.93
40 – 59	6.04	5.57	.47	5.51	5.10	.41
60 and over	6.01	5.26	.75	6.04	5.17	.87
Total	*6.08%*	*5.60%*	*.48%*	*5.67%*	*5.14%*	*.53%*

[a] For data on number and original amount of loans used in the yield analysis, see Appendix Table B8.

[b] For the states included in each region, see Table 6, footnote [b].

[c] For the definition of portfolio size, see Table 6, footnote [c].

[d] Includes one loan made on an income-producing property at 4.0–4.9 percent.

[e] For a definition of loan-to-value ratio, see Table 10, footnote [c].

CHAPTER 5

Urban Mortgage Lending Operations, Costs, and Returns of Commercial Banks, 1946

DESPITE its importance, there has been little information available concerning the actual net return earned by commercial banks on their portfolios of urban mortgage loans, after costs of loan acquisition and servicing. This critical gap in financial knowledge can be attributed mainly to the fact that most studies of mortgage lending costs have been prepared by institutions for internal use and are rarely comparable, one with another. In the absence of industry-wide cost analyses it was necessary, therefore, to plan a special cost survey, the results of which are summarized in this chapter.

Before reviewing the findings of the survey it will be useful to describe briefly the usual pattern of operations followed by commercial banks in their mortgage lending. A knowledge of the principal steps involved in the acquisition and servicing of mortgage loans is necessary in order to appreciate the problems of cost measurement in this field and to interpret cost data correctly. The main problems of accounting that are involved in measuring costs will also be discussed before summarizing the cost data.

Mortgage Lending Operations

In banks where the volume of mortgage lending is small, all operations are ordinarily performed by a single officer, but a considerable degree of specialization is possible where the volume of lending is large. In either case the activities connected with mortgage lending are roughly standardized. First of all, there are those operations related to the origination and selection of loans, all of which may be grouped under the general heading of loan production. Second,

there are the operations of closing and servicing loans. Third, real estate management operations, consisting of rental, maintenance, and sales must be performed where properties have been foreclosed. The first of these operations—the production of loans—includes all that contributes to the eventual placing of a mortgage loan in a bank's portfolio of earning assets.[1] Potential borrowers must be attracted to the bank, or to its branches or agents, applications must be received, and the character and quality of the potential loans determined. Decisions with respect to the acceptability of individual applications may be made by an individual officer or by two or more officers jointly, depending on the amount and type of the loan involved, but in all cases loan decisions must be finally made, or ratified, by the mortgage loan committee of the bank.

There is no fine line of demarcation between the production and servicing operations of a commercial bank mortgage loan department, and the latter cannot be said to follow any fixed plan. The entire operation can be described best for present purposes by reference to a bank with a sizable portfolio. Naturally, this description will not hold for banks with smaller portfolios, but it will serve to illustrate the whole range of activities ordinarily involved.[2]

The initial step involves the preparation of a loan application. A mortgage officer helps the prospective borrower prepare this form, and in the process gains at least a general impression of the applicant and the property being offered as security. The form calls for information on the prospective mortgagor's occupation, his resources, liabilities, income, and family composition, and on many other items pertinent to the determination of his creditworthiness and of the acceptability of the security. Following the completion of the application, the facts given are checked for accuracy by the bank's credit department.

At this stage it will be evident whether the application should be considered further or rejected. If it is decided to carry the application further, an appraisal of the property is obtained. This may be made by an outside appraiser, generally working without knowledge

[1] See Eugene M. Mortlock, "Originating New Mortgage Loans," *Banking* (December 1947) p. 68.

[2] *The Human Side of Mortgage Loan Servicing*, a publication of the Savings and Mortgage Division of the American Bankers Association, deals in considerable detail with the problem of servicing commercial bank mortgages.

of the amount of the loan that has been requested, or by an officer, or committee of officers, of the bank.[3]

If the appraisal is satisfactory, the applicant receives a statement as to the amount of the loan, the rate of interest, the required terms of repayment, and other conditions, such as insurance requirements, that may be part of the loan proposal. If the applicant accepts the bank's offer he is asked to furnish an abstract, which is forwarded to the legal division of the bank for examination, and a survey of the property is ordered. If the abstract is satisfactory the customer is notified of the closing date and the closing requirements and, upon the completion of these, the proceeds of the loan are disbursed.

Regular payments of interest and repayments of capital are received on home mortgage loans on a monthly or quarterly basis, whichever has been prescribed in the loan agreement. Statements are ordinarily sent to borrowers at these intervals and a second notice is sent out if the loan should become past due; if payment still lags a thorough follow-up is started. The regular servicing routine of most banks provides for an annual check of taxes, including city, state, and county; the maintenance of adequate insurance protection is assured by including premiums in the periodic payments.

In cases of persistent delinquency, foreclosure proceedings may

[3] Under the leadership of the Federal Housing Administration, lenders have in recent years greatly expanded their use of mortgage risk-rating systems. On such systems see the *Underwriting Manual,* Federal Housing Administration (revised January 1947, paragraphs 201–41) and the *Home Mortgage Loan Manual* (1943) of the American Bankers Association. For example, the National Housing Act [June 27, 1934, c. 847, 48 Stat. 1250, Title II, sec. 205 (a)] requires that mortgages insured under Section 203 be grouped according to their risk characteristics. In practice this has been effected by giving a mortgage application a numerical rating indicative of the degree of risk in the proposed loans. As stated in the FHA *Underwriting Manual* (revised January 1947, paragraph 204) this requires an analysis of three groups of risk elements, as follows:

"(a) *Mortgage credit elements,* that is, those which lead to a conclusion as to the borrower's past, present, and probable future willingness and ability to meet his obligations, of whatever nature.

"(b) *Real estate elements,* that is, those which relate to the property and its location and which lead to conclusions as to the value of the property at the time of the mortgage transaction and as to the probability that it will at all times during the life of the mortgage be marketable in a reasonable time at a price sufficient to discharge the outstanding obligation of the borrower to the mortgagee.

"(c) *Loan elements,* that is, the amount, repayment plan, and term of the mortgage loan."

While these systems still fall short in the sense of providing an infallible formula for selecting and grading mortgage risks, they do provide a useful basis for the formulation of lending decisions, especially where large numbers of loans on small homes are involved.

be instituted to protect the bank's interest. Where property is acquired the bank may find extensive repairs necessary before either rental or sale is possible. In any event, in this phase of its real estate investment operations the bank must perform, or have performed through its agents, all the functions of real estate management. Since the laws under which commercial banks operate, and the attitudes of bank supervisory agencies vary widely as regards the holding of real estate, there may be significant differences in the length of time which banks will hold individual pieces of property but, in general, the bank's objective is to dispose of property at the first favorable opportunity.

Accounting Problems in Measuring Lending Costs and Returns

Schedules on which selected individual banks were requested to report the costs of their lending operations for the year 1946 were prepared and circulated in early 1947.[4] The objective of the survey was to obtain data comparable among banks on the yield earned in 1946 on portfolios of urban mortgage loans; but since this can be accomplished by several different accounting procedures, each of which gives a different cost figure, it was necessary to select a standard accounting basis. On grounds of practicability, it was determined to measure costs on a cash or current rather than on an accrual basis. The difference between the results given by this and by the accrual method, an understanding of which is important to the proper interpretation of the survey, may be summarized briefly.

In recent years the mortgages acquired by commercial banks and other lending agencies have frequently been purchased on a premium basis, or the correspondent or agent originating the loan has received, at the time of loan origination, an acquisition fee or commission for his services. In the cash accounting procedure the income of a given year is charged with the full amount of the premiums and other acquisition costs actually disbursed in that year; under the accrual accounting method these charges are spread over the expected lives of the newly acquired mortgages. On the accrual basis only a portion of the cost of acquisition is charged against the income

[4] In drawing up the cost schedules, the National Bureau had the help of a special committee of the National Association of Bank Auditors and Comptrollers. Schedules for reporting costs, and the relevant instructions, are reproduced in Appendix C.

of the year in which the loan was originated, regardless of the fact that the full cost may actually have been disbursed in that year. The amount of acquisition costs incurred in a given year depends, of course, on the volume of new loans made rather than on the size of the bank's portfolio of mortgage loans; consequently, when costs are calculated on a cash accounting basis they will be higher during a period of credit expansion than when measured on an accrual basis, and lower during a period of credit contraction.[5]

The accrual accounting procedure is, without question, superior on all logical grounds, giving a less erratic measure of net portfolio returns, but it could not be used in the present analysis because of the impossibility of obtaining reports on this basis. It must be borne in mind, therefore, that the net returns on mortgage loan investment given in the present study, which refer to a period of rapidly rising loan activity, are lower than they would be if an accrual accounting procedure had been followed.

Finally, it is important to note the difference between the measure of yield presented in this study, which may be termed a *net current yield,* and the *net expected yield,* which is frequently referred to in discussions of mortgage investment problems. The principal difference is that the former is based wholly on present investment conditions, relating current income and costs to current loan investment, while the latter attempts, by estimating future conditions, to answer the question: What yield can be expected over the future on a given mortgage loan investment, acquired in the present under specified conditions of income and cost? [6]

[5] However, the rate of turnover of mortgage loan portfolios has been so rapid recently that even an amortization of originating costs might not significantly alter current net income ratios. In 1940, loans of reporting banks were being repaid at a rate that would have retired their entire portfolios in about five years; in 1946 portfolios would have been wholly retired, on the average, in two and three-quarter years. For nearly 75 percent of the banks reporting in 1946, the turnover rate was three and one-half years or less.

[6] A more complete account of the problems involved in the measurement of mortgage lending costs and returns, and also of the conceptual problems encountered in the analysis of cost data, will be found in R. J. Saulnier's *Costs and Returns on Farm Mortgage Lending by Life Insurance Companies, 1945–1947* (National Bureau of Economic Research, Financial Research Program, 1949) pp. 5–14. The methods followed in the analysis of commercial bank costs and returns are the same, in principle at least, as those employed in the study of insurance company experience, although the reporting procedures have necessarily been adjusted to conform to the different bases upon which the records of the two types of institutions are kept.

Definitions

The cost and income ratios used in this analysis of mortgage lending returns have been obtained by relating the loan income and costs of individual banks to the average loan investment of each, which is an average of the balances outstanding at the beginning and at the end of the year. Outstandings include loan balances on straight mortgages and purchase money mortgages, net of reserves, and unpaid balances on real estate sales contracts.[7] Gross income, which was reported on a cash basis, includes all receipts of income, including interest and income from such other sources as renewal fees and commissions, etc., but excludes income which might be received by a bank acting in the capacity of agent for the mortgagor and which subsequently would be paid out again, such as registration or recovery fees, stamp taxes, title fees, etc.

Also, banks were instructed to report investment income before (1) the amortization of commissions or premiums paid when the loan was acquired, (2) any participation in interest on the part of outside agents as compensation for the servicing of loan balances, and (3) any charges against income for specific income reserves. Where such offsets against gross income had been made by reporting banks, an adjustment of gross income was attempted, though this was not feasible in all cases and necessitated the rejection of some reports.

Responding banks were requested to report the costs incurred in 1946 in the operation of their mortgage loan departments in two general classes: direct and indirect costs. Direct costs were defined as those traceable to the activities of the mortgage loan department without arbitrary allocation, such as salaries of departmental personnel, legal fees and court costs, recording fees, dues and subscriptions, postage, telephone and telegraph, freight and express, supplies, rent or occupancy charge, furniture and fixture repairs, advertising, insurance and personal bonds, travel, car expense, machine service, and employees' retirement. Indirect expenses, on the other hand, were defined as those that had to be attributed to the activities of the mortgage loan department on the basis of some scheme of allocation,

[7] Reserves include "reserves for losses on mortgage loans," "valuation reserves," "valuation allowances," "unallocated charge-offs," "unallocated reserves," "specific reserves," "reserves for losses on real estate," and other similar accounts set up in anticipation of losses when the amounts are not actually charged off or credited to the asset account and do not actually alter the book value of assets.

such as general bank administration costs, directors' fees, the costs of the general service departments of the bank and of such departments as bookkeeping, receiving, auditing, paying, proving, trust, research, etc. If the banks found it difficult to report indirect costs as instructed, it was suggested that they divide their mortgage loan department expenses between direct and indirect costs according to their usual practices, and indicate the items included under each heading and the basis of allocation of indirect costs.

Next, the banks were asked to report how much was paid out in 1946 in commissions and premiums for the acquisition of loans, the amount of the loans acquired on the basis of such payments, the amount of fees and other payments made to outside agents on a continuing basis for the servicing of loan balances, and the amount of the balances so serviced.

As indicated above, gross income, total costs, and the several components of cost are expressed, for each reporting bank, as percentages of its average loan investment. Calculations were also made of the ratio of acquisition costs to the amount of the loans acquired during the year on which acquisition fees were paid, and of the amount of servicing fees paid to the average of the amount of the loan balances outstanding, at the beginning and end of the year, which were being serviced on a fee basis by correspondents or other outside agents. Finally, the ratio of total costs to average loan investment was deducted from the gross income ratio of the respective banks, similarly expressed, to give a measure of current net return on mortgage loan investments.

Findings of the Mortgage Lending Cost Survey

Taking those schedules that reported income before any deduction for participation in interest by correspondents or other outside agents and before any charge against current income for the amortization of commissions or premiums paid in connection with the acquisition of loans, it was found that a majority of the banks reported gross incomes of from 4.26 to 4.75 percent on their mortgage loan portfolios in 1946 (Table 27).[8] A few banks reported gross income

[8] These figures may be overstated because of the deduction of valuation reserves from the loan balances. However, because of the recent origin of most of the mortgages these reserves are probably not large.

ratios of less than 4.00 percent but, with the exception of two, these did not fall below 3.75 percent. These very low gross income ratios probably reflect the fact that, contrary to instructions, a deduction from gross income was made for all or part of the heavy volume of loan acquistion costs incurred in the reporting year.

TABLE 27 — REPORTING COMMERCIAL BANKS CLASSIFIED BY RATIO OF GROSS INCOME TO URBAN MORTGAGE INVESTMENT, 1946

Gross Income Ratio	*Banks Reporting Gross Income*	
	Before Deduction of Participation Fees	After Deduction of Participation Fees[a]
4.76 – 5.00%	0	1
4.51 – 4.75	7	3
4.26 – 4.50	4	4
4.01 – 4.25	1	3
3.76 – 4.00	1	2
3.75 and under	2	0
Total	*15*	*13*
Average[b]	4.51%	4.29%

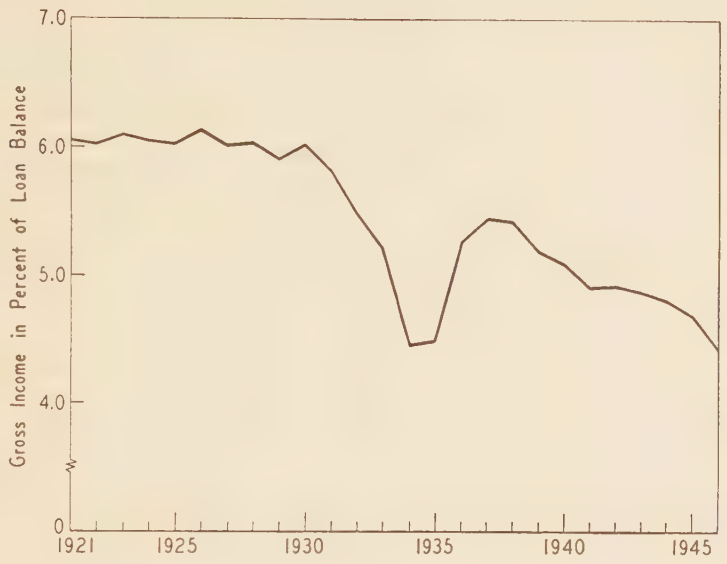
[a] Includes banks reporting gross income net of participation fees for servicing loans and/or net of amortization of loan acquisition costs.

[b] Weighted by the amount of each bank's average loan balance.

It should be remarked, also, that tests failed to reveal any consistent relation between gross income ratios and the amount of the mortgage loan portfolio, though it is clear that the range of variation among gross income ratios was somewhat larger for the banks with small portfolios of mortgages, that is, those with holdings of around $10 million, than for the three reporting banks with portfolios ranging from $70 million to nearly $120 million. Each of these three reported a gross income ratio for 1946 of about 4.6 percent.

Naturally, the rates of gross income on 1946 portfolios, as indicated in Table 27, do not necessarily reflect the rates at which mortgages were being placed on the books at that time. In general, these rates would be lower than the then current portfolio returns and are better shown by the data for interest rates on loans made in 1947, which were shown in Chapter 3. It may be of interest, however, to introduce some additional data to show the trend of interest rates on commercial bank mortgage investments as indicated by gross portfolio income.

CHART 4 — Ratio of Gross Income to Urban Mortgage Loan Investment for Reporting Commercial Banks, 1921–46 [a]



[a] See Table 28 for data and number of banks reporting in each year.

Reflecting the general decline in interest rates, gross income ratios of reporting commercial banks fell from just over 6 percent in the early twenties to around 4½ percent in the mid-forties. Interest delinquencies were the cause of a sharp drop in gross income rates from 1931 to 1935.

Chart 4 and Table 28 present gross income data for a small and changing number of banks for the years 1921–46. The rate of gross income for these banks fell from 6.05 percent of their average mortgage loan investment in 1921 to just under 4.45 percent in 1946, a decline of about 25 percent. This general downward trend reflects the decline in contract interest rates revealed in Chart 2. The sharp reduction of gross investment income from 1931 until 1935, on the other hand, reflects the wave of delinquency (on interest as well as on principal, in many cases) that spread through mortgage portfolios at that time and in some cases the effects of mortgage moratoria. The revival of interest payments and the consequent rise of gross rates of

return in 1935, 1936, and 1937 are also evident. This was followed, in 1938 and later years, by a renewed decline in gross mortgage income, reflecting mainly the declining rates of interest on mortgage loans being put on the books of lending institutions.

TABLE 28 — RATIO OF GROSS INCOME TO URBAN MORTGAGE LOAN INVESTMENT FOR REPORTING COMMERCIAL BANKS, 1921–46 [a]

Year	*Gross Income Ratio*	*Number of Banks*
1921	6.05%	1
1922	6.03	2
1923	6.09	2
1924	6.06	2
1925	6.02	3
1926	6.14	3
1927	6.02	4
1928	6.04	5
1929	5.92	6
1930	6.03	8
1931	5.83	8
1932	5.49	8
1933	5.23	10
1934	4.46	10
1935	4.49	10
1936	5.27	11
1937	5.45	12
1938	5.38	12
1939	5.18	12
1940	5.09	12
1941	4.92	12
1942	4.93	12
1943	4.87	12
1944	4.81	12
1945	4.69	12
1946	4.43	12

[a] Averages are weighted by loan balances.

In view of the wide differences among banks in the classification of direct and indirect costs, and in the division of loan acquisition and servicing costs between those paid to correspondents and other outside agents and those incurred directly in the bank's own department, only total costs have been analyzed. Returns from the thirteen

banks for which a calculation of total costs in percent of average loan investment can be made show that, for all but three of these institutions, total costs varied between 1.0 and 2.0 percent of the average loan portfolio, and for all reporting banks, the average total cost was 1.35 percent (Table 29).[9] Since costs were reported on a current basis, thus giving full effect within 1946 to the commissions, fees, and premiums paid in that year for loan originations, and since this was

TABLE 29 — GROSS INCOME, TOTAL LENDING COSTS, AND NET INCOME AS A PERCENTAGE OF URBAN MORTGAGE LOAN INVESTMENT, AND RELATED DATA, FOR REPORTING COMMERCIAL BANKS, 1946

Bank	Average Loan Investment [a]	Average Balance per Loan [b]	1946 Investment Increase	Gross Income	Total Lending Costs	Net Income
A	$73.0	$6.7 [c]	26%	4.60%	1.10%	3.50%
B	30.1	5.0	113	4.11	1.74	2.37
C	28.2	29.6	15	4.42	1.40	3.02
D	28.4	15.9	30	4.31	.48	3.83
E	24.5	4.6	37	4.46	1.97	2.49
F	20.0	4.3	24	4.29	1.76	2.53
G	15.1	4.1	93	4.03	2.11	1.92
H	13.6	4.1	25	4.59	1.31	3.28
I	10.9	217.8	71	3.79	1.50	2.29
J	10.0	5.5	37	4.26	.62	3.64
K	8.3	3.9	44	3.95	1.54	2.41
L	5.9	11.8	18	4.39	1.28	3.11
M	3.3	4.7	1	4.54	1.65	2.89
Average	..	..	..	4.36%	1.35%	3.01%

[a] In millions of dollars.
[b] In thousands of dollars.
[c] Average size of loans made during 1946.

a year of rapidly rising loan volume, a relatively high total cost ratio would be expected. However, there was no consistent relationship in the 1946 data between the percentage increase of a reporting bank's portfolio in that year and the level of its total cost ratio. This ratio would, of course, be influenced also by the types of mortgage loans

[9] In view of the distinct concentration of reported costs between 1 and 2 percent there is a strong possibility that the two banks reporting costs below 1 percent were either reporting incorrectly or were characterized by some organizational feature very different from that of the other reporting banks.

acquired, but there was no means available for separating the effect of this factor from that of other factors affecting the level of total costs. Nevertheless, it seems reasonable to conclude from this evidence that the costs incurred by commercial banks in the operation of mortgage loan departments would be in the general neighborhood of 1.25 to 1.50 percent of the amount of their average loan investment in years of relatively high lending activity.

Because the differences among reporting banks with respect to the gross return on their holdings of urban mortgage loans were not associated with opposite differences in their total cost ratios, considerable variation is apparent among reporting banks as regards the ratio of net income after operating costs to average loan investment (Table 29). Nor is any regular relationship revealed between the rate of return after costs and the volume of loans held by a particular bank; the level of returns, regardless of bank portfolio size, seems to be about the same, namely, from 2.25 to 3.25 percent for reporting banks. The average net return for the banks that reported both gross income and total costs, when weighted by the size of the portfolios of the several reporting institutions, was almost exactly 3.00 percent.

The average net return of 3.00 percent on the mortgage loan investments of reporting banks may be unduly low, taking into account the heavy volume of loans made in 1946, but even if one were to assume a lower total cost ratio—say, 1.00 rather than 1.35 percent—this would give a net return of about 3.40 percent before any allowance for the risk factor. In accordance with the results of the loan experience analysis, as summarized in Chapter 4, a risk factor of 0.30 percent may be regarded as reasonable; on this basis a net return in the general vicinity of 3.00 percent after loss reserves is indicated for this type of bank investment.

APPENDIX A

Loan Experience Card and Instructions to Cooperating Banks

National Bureau of Economic Research

MORTGAGE LOAN EXPERIENCE CARD

Financial Research Program

A. [ ]

B. Location of property: State ..... City or town .....

C. Type of property (check one)
1 ( ) One-family, no business
2 ( ) Two-family, no business
3 ( ) Three-family, no business
4 ( ) Four-family, no business
5 ( ) Business and 1- to 4-family
6 ( ) Apartments, no business
7 ( ) Apartments and business
8 ( ) Office building
9 ( ) Store only
10 ( ) Store and office
11 ( ) Manufacturing and industrial
12 ( ) Vacant lot or land
13 ( ) Other (please specify) .....
.....

D. Type of loan at time of making (check one)
1 ( ) FHA
2 ( ) Conventional, fully amortized
3 ( ) Conventional, partially amortized
4 ( ) Conventional, nonamortized
5 ( ) Veterans Adm. guar. or ins. loan

E. Original schedule of payments (check)

	Prin.	Int.
1. Monthly	( )	( )
2. Quarterly	( )	( )
3. Semi-annual	( )	( )
4. Annual	( )	( )
5. None	( )	( )

F. Is this a purchase money mortgage? Yes ( ) No ( )

G. Is this a real estate sales contract? Yes ( ) No ( )

H. Original loan: (1) Year loan was made .....
(2) Amt. $..... (3) Appraised value $.....
(4) Contract term (in years).....
(5) Contract rate of interest .....%

I. Subsequent modifications in loan or sales contract:

Month and Year of Modification (1)	Unpaid Balance at Time of Modification (2)	Changes in Outstanding Balance: Advance of Additional Funds (3)	Changes in Outstanding Balance: Reduction of Principal: By Compromise (4)	Changes in Outstanding Balance: Reduction of Principal: By Payment (5)	Extension of Contract Term (in yrs.) (6)	Change in Contract Rate of Interest (7)	Changes in Loan Type (see D above) (8)	New Appraisal (9)	Unpaid Balance After Modifications (10)
First	$	$	$	$		to....%		$	$
Second						to....%			
Third						to....%			

J. Loan status: (1) Still on books (state unpaid balance) $..... (2) Paid off (year).....
(3) Transferred to HOLC (year) ..... (4) Loan sold or assigned (year).....
(5) Title acquired (year) .....; by foreclosure ( ); by voluntary deed ( )

(If property was acquired and sold fill in Schedule K on reverse side of this card)

(concluded on next page)

Fill in Schedule K *only* if property was acquired and sold

K. Data on property acquired and sold

(1) Year in which property was sold			
(2) Was a purchase money mortgage taken? Yes ( ) No ( )			
(3) Was property sold under a real estate sales contract? Yes ( ) No ( )			
(4) Unpaid principal balance of loan at time of transfer to owned real estate	$.....		
(5) Amounts paid out in taxes, insurance, etc., prior to transfer to owned real estate, if not included elsewhere in this schedule	$.....		
(6) Delinquent interest at time of transfer to real estate (Check here if this figure represents compounded interest ☐)	$.....		
(7) Total of items 4, 5, and 6		$.....	
(8) Foreclosure costs paid (legal, advertising, etc.)		$.....	
(9) Total of items 7 and 8			$.....
(10) Proceeds of deficiency judgments and other settlements		$.....	
(11) Income from property while held as real estate	$.....		
(12) Expenses incurred on property (taxes, insurance, repairs, improvements, management, and commissions on sale, etc.)	$.....		
(13) Net income (+) or loss (—) on property (item 11 minus item 12)		$.....	
(14) Sale price		$.....	
(15) Net of items 10, 13, and 14			$.....
(16) Loss (or gain) on property (item 15 minus item 9)			$.....

MORTGAGE LOAN EXPERIENCE CARD

Section I—Sampling Instructions

Cooperating banks will draw samples of urban mortgage loans from their files of active (i.e., outstanding) and inactive (i.e., paid out, foreclosed, or otherwise satisfied) loans. Loans are to be picked from among those held for the bank's own account and are to exclude trust department mortgage holdings. The way you pick your sample will depend on the way in which your loans are filed. Accordingly, we have outlined below four different methods of drawing samples. Select from among these methods the one that is most appropriate for your situation. Remember that the object of the sampling procedure is a simple one: to get a representative sample of urban mortgage loans for the whole group of cooperating commercial banks. In your case this means that information should be given on every ..... th mortgage loan made from January 1, 1920 to the present date, or from the date your bank began making urban mortgage loans if this was after January 1, 1920.

* * *

Whatever sampling method you follow, be sure you read the section on "Completing the Mortgage Loan Histories" given on page . . , below.

* * *

Method A

Use This Method If Your Mortgage Loans Are Filed Separately from Other Loans, and Are Arranged in Numerical Order.

1. If Method A can be used, the way you pick your sample will depend on whether your mortgage loans have been assigned numbers in a sequence that does not include any other type of loan, or have been assigned numbers in the same sequence with other types of loans.

In the former case, you can pick a sample very easily by simply

finding the number of the first mortgage loan made after January 1, 1920, drawing this loan as the first in your sample, and taking every ..... th loan thereafter. In the latter case, you can pick your sample most easily by finding the number of the first mortgage loan made after January 1, 1920, drawing this loan, and counting forward in your file of mortgage loans to draw every ..... th loan thereafter. The count is based on *all* mortgage loans, not merely urban mortgage loans. In counting loans be careful to count *loans* and not cards, since some loans may have more than one card.

2. *Whichever of the above methods you use, you should omit from your sample any mortgage loans on farm properties and any "successor loans."* By a "successor loan" we mean a loan that, while it has a separate number, is merely a rewriting or recasting of another loan that was made at an earlier date. When you reject a loan, either because it is on farm property or is a "successor loan," you should not replace this with another loan. Disregard the loan and go forward to the next loan.

3. Continue with the drawing of loans until you have gone through your whole mortgage loan file, covering active and inactive loans. Be sure not to overlook any cabinet or file drawer. Where loans are being counted to pick every .... th, carry over the remainder of a count from one file drawer or cabinet to another. With the exception of farm mortgage loans and "successor loans," *do not omit any mortgage loan that is drawn, even though it may seem extremely untypical of the mortgage experience of your company.*

Method B

USE THIS METHOD IF YOUR MORTGAGE LOANS ARE FILED SEPARATELY FROM OTHER LOANS, BUT NOT IN NUMERICAL ORDER; FOR EXAMPLE, IF THEY ARE FILED IN ALPHABETICAL ORDER.

Start at the beginning of your file of inactive mortgage loans, select the first loan, and draw every .... th loan thereafter, being sure to count *loans* and not cards, since some loans may have more than one card. If the loans are filed in several cabinets, begin with any cabinet, carrying over the remainder of a count from one cabinet to another. Be sure not to overlook any cabinet or file drawer. Proceed in this way until you have drawn from all files of both inactive and active mortgage loans.

If files are not in chronological order you will pick some loans that were made prior to 1920; reject these loans and do not substitute others. If files are in chronological order, begin with the first loan made after January 1, 1920.

As in Method A above, omit all farm mortgage loans and "successor loans" that may have been selected in this draw. See paragraph 2 of Method A for details on this point.

Method C

USE THIS METHOD IF YOUR MORTGAGE LOANS ARE NOT FILED SEPARATELY FROM OTHER TYPES OF LOANS, BUT ARE IN ONE COMBINED FILE, ARRANGED IN NUMERICAL ORDER.

Find the number of the first loan (regardless of type) made after January 1, 1920 and draw this loan and every .... th loan thereafter. If the loan drawn is not an urban mortgage loan, or is a "successor loan" to an earlier urban mortgage loan, reject it and proceed to the next .... th loan, as described in paragraph 2 of Method A.

Method D

USE THIS METHOD IF YOUR MORTGAGE LOANS ARE NOT FILED SEPARATELY FROM OTHER LOANS BUT ARE IN A COMBINED FILE, ARRANGED IN ALPHABETICAL OR OTHER NONNUMERICAL ORDER.

Start at the beginning of your file of inactive loans, select the first loan and every ..... th loan thereafter, being sure to count loans and not cards since some loans may have more than one card. If the loans are filed in more than one cabinet you can start with any cabinet, carrying over the remainder of a count from one cabinet or file drawer to another.

If files are not in chronological order you will pick some loans that were made prior to 1920; reject these loans and do not substitute others. If files are in chronological order, begin with first loan made after January 1, 1920.

Reject loans drawn which are not urban mortgage loans or are "successor loans" to urban mortgage loans made at an earlier date, as described in paragraph 2 of Method A.

* * *

COMPLETING THE MORTGAGE LOAN HISTORIES

Regardless of the method which you have followed in drawing your sample of loans, you now have a sample of urban mortgage loans which, when combined with loans similarly drawn by other banks, should be broadly representative of mortgage loans made since January 1, 1920.

Your record must now be completed as follows: Go through the loans that you have drawn and if you find any that were later recast and given a new loan number, find the later loan and attach the card, or record, to the card of the original loan. Some loans may have been rewritten several times in which case it may be necessary to assemble several loan cards, or records, in order to trace the loan's full history. Aside from loans that are still outstanding, a loan history is considered as being complete when the loan is fully paid off, sold, assigned or foreclosed.

In a few cases you may find that a card representing a recast loan, which was located in order to complete a loan history, is one that was drawn in the first count and rejected as a "successor loan"; in this case you need the record in order to complete the history of your loan sample.

In some cases you may find that a loan selected for your sample was canceled before funds were disbursed. In such cases pick the next loan. Thus, if the original loan selected was numbered 712, and it had to be rejected as a canceled loan, pick loan number 713 for your sample.

* * *

When the cards completing the histories of the selected loans have been assembled, the sample is ready to be used for transcription to the Mortgage Loan Experience Cards.

For each loan use a separate card. We have sent you what we believe will be an adequate supply of cards but if more are needed they will be supplied on request.

Instructions for filling out the Mortgage Loan Experience Card will be found in Section II, following.

* * *

Section II—Instructions for Filling Out the Mortgage Loan Experience Card

These instructions should be read through and compared with the Mortgage Loan Experience Card before any transcriptions are made. The information transcribed on the Mortgage Loan Experience Card is to be taken from the ledger cards that you have drawn from your files by the sampling methods described in Section I.

* * *

Schedules A to H inclusive, and Schedule J of the Mortgage Loan Experience Card are to be filled in completely (so far as possible) for each loan in the sample.

Schedule I will be filled in for only a part of the loans selected.

Schedule K (reverse of card) will be filled in for only a few of the loans selected, namely, those on which property was acquired and sold.

If data are not available, write "n.a." for the question involved.

If you feel that any special comments should be made on a particular loan, enter them on a separate sheet. Mark this sheet with the same identification number as the card it applies to, and attach it to the card.

* * *

In this analysis, a mortgage loan is defined as an obligation secured by a specific piece of *property*. Therefore, in filling out the Mortgage Loan Experience Card, the information recorded about each loan should carry the history of the loan forward, from its origination, through any modifications, to extinguishment (whether by repayment, sale or assignment, or by foreclosure), regardless of the fact that the original obligor may have been succeeded by one or more other obligors.

* * *

Schedule A. *Loan Identification Number.* A space is provided in which to give a number that will permit identification by your bank of the loan on which information is transcribed. Whether this is the loan's actual file number, or a new number assigned so as not to disclose the loan's file number, does not matter for purposes of the National Bureau's analysis. In either case you should keep a record so that you

can refer back to a particular loan if necessary; it is especially important to keep such a record if the number given in Schedule A is not the actual file number of the loan.

Schedule B. *Location of Property.* Enter here the state where the *property* is located, also the county and city or town. Do not indicate street address.

Schedule C. *Type of Property.* From among the listed types of property, check the one which best describes the *principal characteristic* of the property mortgaged. If the property is not adequately described by any one of the listed types, indicate its character under Item 13.

Schedule D. *Type of Loan at Time of Making.* Check the appropriate type of loan. If it is not possible to distinguish between a fully amortized and a partially amortized conventional (i.e., uninsured) loan, bracket types 2 and 3 and check the bracket.

Schedule E. *Original Schedule of Payments.* Check the type of principal and interest payment schedules which were set up *at the time the loan was made.*

Schedule F. *Purchase Money Mortgage.* Indicate here by a check mark whether the loan selected was a purchase money mortgage *when first put on the books.* A "purchase money mortgage" means a mortgage taken as part of the consideration received on the sale of property owned by the mortgagee.

Schedule G. *Real Estate Sales Contract.* Indicate here whether the transaction was initiated as a real estate sales contract. Ignore cases where the sales contract did not earn interest and cases where the sales contract was clearly an interim arrangement and was replaced after a short period by a purchase money mortgage.

Schedule H. *Original Loan.*

(1) Year loan was made: Give the last two figures of the year during which the loan was made; for example, a loan made at any time in 1927 would be indicated 27.

(2) Amount: Indicate the original amount in dollars, omitting cents.

(3) Appraised value: Give the original appraisal of land and buildings combined, in dollars, omitting cents.

(4) Contract term: Give the original term of the contract to the nearest year. If the original loan was written on a demand basis, write in "demand," or "demand after _____ years," whatever the case may be.

(5) Contract rate of interest: This refers to the *gross* rate of interest—that is, the rate charged to the borrower. It should be reported gross of any participations in interest by a bank's correspondent or other agent.

Schedule I. *Subsequent Modifications in Loan or Sales Contract.* This schedule asks for information on such modifications of the original contract as may have been made; for example, an advance of additional funds, or forgiveness of part of the principal through compromise, or the extension of contract term (including cases in which the principal was reduced by payment and the loan term was extended), or changes in the contract rate of interest or loan type.

Such changes should be indicated in the appropriate columns of Schedule I. If several of the loan's features were changed in the same modification, make all the necessary entries on the same line. Leave those columns blank that refer to loan features that were not modified. Give amounts in dollars, omitting cents.

If additional space is needed to record contract modifications, use additional cards and staple or clip together. (Please mark all cards applying to a given loan with the same identification number.)

Unpaid balance at time of modification (column 2) and *unpaid balance after modifications* (column 10) should be filled in in every case.

In reporting *advance of additional funds* (column 3) ignore changes which resulted from periodic increases in the balance because of tax payment, etc. However, an increase in the balance because of payments of accumulated taxes on which the debtor was delinquent should be considered an "advance of additional funds." Also, if the loan was rewritten and the unpaid balance of the old loan reduced to zero, then the unpaid balance at the time the loan was rewritten should be given in column 2 and the amount of additional funds over and above the former balance entered in column 3; the resulting new unpaid balance should be reported in column 10.

Reduction by compromise (column 4) refers to the foregiveness of part of the unpaid principal balance by compromise, i.e., by agreement between mortgagor and mortgagee.

Under column 6 indicate the *additional* number of years for which the contract was extended. Thus, a contract having two years to run which was modified to mature in six years would be considered as having been extended for four years. For purposes of this calculation consider as a full year any part of a year which is six months or more.

Under column 7 indicate only the *new rate of interest.*

Column 8, *changes in loan type,* is provided to record such modifications or changes in the loan as alter its original type as shown in D above. Also, the substitution of a purchase money mortgage for a real estate sales contract may be noted in this column.

Under column 9 indicate the amount in dollars, omitting cents, of any *new appraisal* made in connection with a modification of the loan contract. This will be the combined appraisal of land and buildings.

Schedule J. *Loan Status.* Indicate by year, or by giving the unpaid balance in the case of active loans, the status of the loan.

* * *

If the loan resulted in the acquisition of property *and if this property has been sold,* fill out Schedule K, which is on the reverse side of the mortgage card. In all other cases Schedule K is to be ignored.

Schedule K. *Data on Property Acquired and Sold.*

The primary purpose of Schedule K is to get a final figure of loss or gain on properties acquired and sold. This is reported in Item 16. Schedule K has been designed to enable respondents to build up a figure of loss or gain which will be comparable from bank to bank. However, the records of individual banks may provide a direct figure of loss or gain that is comparable to the one that would be derived under Schedule K, although it might be built up in a different way. In this case it will be sufficient to report the bank's available figure directly, but Items 7 and 14 should also be given, wherever possible.

If the figure of loss or gain on property which can be taken directly from a bank's records is not comparable to Item 16 in Schedule K, but can readily be adjusted to achieve this comparability, such an adjusted figure will fulfill the needs of this study.

Individual items under Schedule K are defined as follows:

Item (4) This refers to the amount owed by the mortgagor, without giving effect to any write-downs in the book value of the loan made at any time prior to, or at the time of, transfer to real estate.

Item (5) This refers only to amounts paid out *prior* to transfer to real estate. Since the purpose is to measure the amount that the mortgagee has invested in a particular item of property, reports should exclude all payments of taxes and insurance for which the mortgagee acted merely as a transmitting agency. Further, amounts paid out prior to transfer to real estate should not be reported if they were included elsewhere in this schedule (e.g., if they were capitalized and shown in the loan balance given in Item 4).

Item (6) Give the amount of any delinquent interest which was due on the loan at the time it was transferred to real estate, provided this was not added to the loan balance and reported under Item 4. Note that it will be necessary to check under Item 6 if delinquent interest is calculated on a compound interest basis. Do not check if your calculation of delinquent interest is made on the basis of simple interest.

Item (8) Report all foreclosure costs, including legal, court, and advertising costs, incurred in connection with the foreclosure. Whether foreclosure costs are capitalized into the book value of the property or are charged currently against income does not matter for purposes of this schedule. You are asked merely to report the *amount* of the incurred costs.

Item (10) Any recoveries made through deficiency judgments or other settlements should be reported here.

Items (11), (12), and *(13)* If the income earned from property while held as real estate, and the expenses incurred on it (including expenditures for repairs and permanent improvements, and expenses incurred in connection with the sale of the prop-

erty), are available separately, these should be recorded as indicated on the schedule. However, if there is available only a figure of net income or loss, this can be reported as such under Item 13 with a plus or minus sign to indicate its character.

Item (14) Report only the sale price of the property. Any expenses in connection with the sale (e.g., commissions) should be reported under Item 12.

Item (16) This summarizes the foregoing items in a figure of final loss or gain. As indicated above, you may build up this figure of loss or gain according to the sequence of items indicated in Schedule K; but if your records provide a direct single figure of loss or gain on the property, this figure may be substituted for Item 16 with a general statement, in a note accompanying the group of returned cards, explaining the difference between the process by which this figure was arrived at and the type of calculation indicated in Schedule K. In any case we would like to have a separate reporting of Items 7 and 14.

It will be noted that this schedule ignores changes by adjustment in the book value of real estate. We are doing this because increases in the book value of property, representing a capitalization of costs such as those incurred under Items 5, 6, 8, and 12, will have been provided for by these items, while decreases in the book value of acquired real estate can be ignored in this analysis of sold properties.

APPENDIX B

Supplementary Tables on Mortgage Loan Experience

Mortgage Loan Experience

Tables

Tables B1 through B5 supplement Chapter 3. Table B1 gives the combined data for all portfolio sizes for Table 9 of the text. Tables B2 and B3 which present data on the schedule of repayments and current interest rates, respectively, on loans held June 1947 are referred to in the text. Table B4 presents information relevant to footnote 10 of this chapter and Table B5 gives the data for Chart 2.

Tables B6 through B8, referred to in Chapter 4, give the number and original amount of loans upon which the yield figures shown in Tables 24 through 26 are based.

TABLE B1 — PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, BY ORIGINAL AMOUNT AND TYPE OF LOAN, CLASSIFIED BY TYPE OF PROPERTY

(dollar figures in thousands)

Loan Characteristics	*1- to 4-Family Dwellings*		*All Other Property*	
	No. of Loans	Amt. Outst.	No. of Loans	Amt. Outst.
ORIGINAL LOAN AMOUNT				
Less than $5,000	51.1%	26.8%	26.6%	2.6%
5,000 – 9,999	41.3	53.8	20.8	4.9
10,000 – 19,999	7.0	15.3	23.0	9.3
20,000 and over	.6	4.1	29.6	83.2
TYPE OF LOAN [a]				
Insured	*53.1*	*61.5*	*10.1*	*2.3*
VA	26.5	40.5	7.3	1.9
FHA	26.6	21.0	2.8	.4
Noninsured	*46.9*	*38.4*	*89.8*	*97.5*
Fully amortized	27.7	21.4	45.9	24.9
Partially amortized	14.0	13.5	33.1	57.3
Nonamortized	5.2	3.5	10.8	15.3
Total	*4,218*	*$19,422*	*399*	*$9,771*

[a] Excludes a few loans for which data on type of loan were not available.

TABLE B2 — PERCENTAGE DISTRIBUTION OF A SAMPLE OF URBAN MORTGAGE LOANS HELD BY 170 COMMERCIAL BANKS, JUNE 1947, BY SCHEDULE OF REPAYMENTS, CLASSIFIED BY TYPE OF PROPERTY [a]

(dollar figures in thousands)

Schedule of Repayments	*1- to 4-Family Dwellings*		*All Other Property*	
	No. of Loans	Amt. Outst.	No. of Loans	Amt. Outst.
Monthly	88.7%	90.1%	63.7%	57.5%
Quarterly	3.1	4.0	14.8	13.0
Semi-annually	2.3	1.7	6.0	10.1
Annually	.4	.5	3.8	3.4
No schedule	5.2	3.5	10.8	15.3
Total	*4,218*	*$19,422*	*399*	*$9,771*

[a] Excludes a few loans for which data on schedule of repayments were not available.

TABLE B3 — Percentage Distribution of a Sample of Urban Mortgage Loans Held by 170 Commercial Banks, June 1947, by Current Interest Rate, Classified by Type of Property

(dollar figures in thousands)

Current Interest Rate	*1- to 4-Family Dwellings*			*All Other Property*		
	No. of Loans	Amt. Outst.	Avg. Amt. Outst.	No. of Loans	Amt. Outst.	Avg. Amt. Outst.
Under 4.0%	.5%	.9%	$8.1	6.0%	16.8%	$68.3
4.0 – 4.4	34.4	50.8	6.8	32.3	60.2	45.6
4.5 – 4.9	26.1	22.5	4.0	17.0	9.0	13.0
5.0 – 5.4	25.2	20.0	3.7	32.3	12.3	9.3
5.5 – 5.9	1.5	.7	2.0	1.0	.1	3.5
6.0 and over	12.3	5.1	1.9	11.3	1.6	
Total	*4,218*	*$19,422*	*$4.6*	*399*	*$9,771*	*$24.5*

TABLE B4 — Contract Interest Rates, Contract Lengths, and Loan-to-Value Ratios for a Sample of Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, Type of Contract, and Period Made, 1920-47 [a]

Period Made	*Contract Int. Rate*		*Contract Length (yrs.)*		*Loan-to-Value Ratios*	
	Straight Mortgages	Purchase Money Mortgages [b]	Straight Mortgages	Purchase Money Mortgages [b]	Straight Mortgages	Purchase Money Mortgages [b]
			1- to 4-Family Dwellings			
1920-24	6.16%	6.01%	3.0	4.4	50.7%	53.0%
1925-29	6.04	6.13	3.2	5.1	52.1	52.1
1930-34	6.01	5.89	3.1	5.2	50.6	60.7
1935-39	5.19	5.15	12.0	12.6	63.7	72.8
1940-47	4.52	4.48	12.8	14.2	67.4	75.3
Total	*5.32%*	*4.91%*	*8.4*	*12.2*	*59.7%*	*70.9%*
			All Other Property			
1920-24	5.35%	6.03%	8.2	1.3	43.1%	66.7%
1925-29	5.95	6.36	3.9	6.9	44.4	55.4
1930-34	5.31	5.89	5.2	4.3	42.2	54.4
1935-39	4.40	3.90	4.8	8.4	33.9	80.7
1940-47	3.97	4.02	6.0	9.2	56.8	77.8
Total	*4.85%*	*4.11%*	5.7	*9.0*	*46.8%*	*77.0%*

[a] Contract interest rates, contract lengths, and loan-to-value ratios are weighted in each case by the original amount of each loan.

[b] Includes real estate sales contracts.

TABLE B5 — Contract Interest Rates, Contract Lengths, and Loan-to-Value Ratios for a Sample of Straight Urban Mortgage Loans Made by 116 Commercial Banks, Classified by Type of Property, 1920–47

Year Made	1- to 4-Family Dwellings			All Other Property		
		Contract Int. Rate			Contract Int. Rate	
	No. of Loans	Annual [a]	3-Year Moving Average [b]	No. of Loans	Annual [a]	3-Year Moving Average [b]
1920	69	6.2%	..	8	6.0%	..
1921	58	6.2	6.2%	5	6.1	6.2%
1922	113	6.2	6.2	12	6.6	6.2
1923	147	6.2	6.1	11	6.0	5.3
1924	182	6.1	6.1	30	5.2	5.5
1925	199	6.1	6.0	29	6.0	5.4
1926	182	5.9	6.0	25	5.6	5.9
1927	188	6.1	6.0	28	6.1	5.9
1928	186	6.1	6.1	37	6.0	6.0
1929	134	6.1	6.1	24	6.1	6.0
1930	114	6.2	6.0	24	6.1	5.2
1931	114	5.8	6.0	9	4.4	5.2
1932	41	6.1	5.9	14	5.6	5.1
1933	32	6.3	6.2	8	5.9	5.6
1934	32	6.1	5.8	7	5.8	4.3
1935	87	5.6	5.5	9	3.7	4.3
1936	106	5.3	5.4	17	5.0	4.1
1937	136	5.3	5.2	13	5.0	5.1
1938	151	5.1	5.1	13	5.4	5.1
1939	198	5.0	4.9	20	5.0	4.2
1940	220	4.7	4.8	24	3.5	4.1
1941	194	4.7	4.7	24	4.4	3.9
1942	159	4.6	4.6	12	4.5	4.3
1943	152	4.7	4.6	17	3.9	4.2
1944	152	4.6	4.5	23	4.2	4.2
1945	164	4.5	4.4	27	4.2	4.0
1946	380	4.3	4.4	52	3.9	4.0
1947	81	4.4	..	12	4.4	..

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TABLE B5 — (continued)

Year Made	1- to 4-Family Dwellings			All Other Property		
		Contract Length (years)			Contract Length (years)	
	No. of Loans	Annual [a]	3-Year Moving Average [b]	No. of Loans	Annual [a]	3-Year Moving Average [b]
1920	68	2.9	..	8	4.1	..
1921	58	1.8	2.7	5	5.0	4.2
1922	113	2.9	2.7	12	4.1	2.9
1923	147	2.9	3.2	11	2.1	8.4
1924	182	3.5	3.2	30	9.1	7.1
1925	199	3.1	3.4	29	2.7	7.0
1926	182	3.6	3.1	25	4.4	3.3
1927	188	2.5	3.1	28	3.3	4.2
1928	186	3.2	3.0	37	4.5	4.3
1929	134	3.7	3.4	24	4.9	4.9
1930	114	3.6	3.4	24	6.1	7.1
1931	114	3.0	3.2	9	8.5	5.6
1932	41	3.0	2.9	14	2.9	5.3
1933	32	2.1	2.8	8	3.5	3.0
1934	32	2.9	7.1	7	3.3	3.2
1935	87	9.8	8.9	9	3.2	3.8
1936	106	9.7	9.6	17	6.2	4.0
1937	136	9.6	11.0	13	4.6	5.7
1938	151	13.2	12.9	13	5.6	6.5
1939	198	14.8	14.9	20	7.7	7.8
1940	220	16.0	15.1	24	8.5	7.8
1941	194	14.4	14.6	24	6.2	7.8
1942	159	12.8	13.3	12	8.0	6.6
1943	152	12.4	11.7	17	6.6	5.8
1944	152	10.0	10.4	23	5.3	6.9
1945	164	9.3	11.5	27	8.9	5.6
1946	380	12.7	12.2	52	4.8	5.6
1947	81	14.8	..	12	4.3	..

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TABLE B5 — (concluded)

Year Made	1- to 4-Family Dwellings			All Other Property		
		Loan-to-Value Ratio			*Loan-to-Value Ratio*	
	No. of Loans	Annual [a]	3-Year Moving Average [b]	No. of Loans	Annual [a]	3-Year Moving Average [b]
1920	64	48%	..	8	41%	..
1921	57	49	50%	5	45	43%
1922	108	51	50	12	46	47
1923	144	50	51	9	48	43
1924	176	52	51	28	43	40
1925	194	50	51	27	28	41
1926	178	51	52	25	52	40
1927	187	54	53	26	49	51
1928	180	53	53	36	51	50
1929	127	53	52	24	47	50
1930	113	50	51	23	52	41
1931	111	50	50	9	34	41
1932	41	51	51	13	54	37
1933	31	57	52	7	44	49
1934	32	50	57	7	50	30
1935	84	60	59	9	24	33
1936	104	61	60	16	52	31
1937	130	60	62	13	35	45
1938	143	63	65	13	39	40
1939	192	69	69	19	43	46
1940	210	72	70	23	55	48
1941	191	68	69	24	47	50
1942	154	67	67	12	51	49
1943	150	66	65	17	51	54
1944	150	61	63	23	56	53
1945	164	61	66	25	50	59
1946	379	70	68	50	63	59
1947	80	69	..	12	43	..

[a] Annual averages of interest rates, contract lengths, and loan-to-value ratios are weighted in each case by the original amount of each loan.

[b] Three-year moving averages of interest rates, contract lengths, and loan-to-value ratios are weighted in each case by three-year moving averages of original amount of each loan.

TABLE B6 — NUMBER AND ORIGINAL AMOUNT OF URBAN MORTGAGE LOANS MADE AND EXTINGUISHED 1920–47, FOR A SAMPLE OF LOANS MADE BY 116 COMMERCIAL BANKS, CLASSIFIED BY TYPE OF PROPERTY

(dollar figures in thousands)

Type of Property	*Number of Loans*	*Original Amount*
1- to 4-Family Dwellings	*3,860*	*$15,324*
1-family	3,198	12,182
2- to 4-family	555	2,452
1- to 4-family with business use	107	690
All Other Property	*515*	*12,001*
Apartments	108	1,904
Stores	82	2,558
All other	325	7,539
Total	*4,375*	*$27,325*

TABLE B7 — NUMBER AND ORIGINAL AMOUNT OF URBAN MORTGAGE LOANS MADE AND EXTINGUISHED 1920–47, FOR A SAMPLE OF LOANS MADE BY 116 COMMERCIAL BANKS, CLASSIFIED BY TYPE OF PROPERTY AND PERIOD MADE [a]

(dollar figures in thousands)

Period Made	*1- to 4-Family Dwellings*		*All Other Property*	
	Number of Loans	Original Amount	Number of Loans	Original Amount
1920-24	686	$2,626	84	$2,816
1925-29	1,023	4,677	141	2,921
1930-34	375	1,402	62	1,960
1935-39	786	2,779	110	2,556
1940-47	983	3,812	117	1,712
Total	*3,860*	*$15,324*	*515*	*$12,001*

[a] Excludes a few loans for which data on period made were not available.

TABLE B8 — Number and Original Amount of Urban Mortgage Loans Made 1920–29 and Extinguished by 1947, for a Sample of Loans Made by 116 Commercial Banks, Classified by Type of Property, Property Location and Loan Characteristics

(dollar figures in thousands)

Loan Characteristics	*1- to 4-Family Dwellings*		*All Other Property*	
	Number of Loans	Original Amount	Number of Loans	Original Amount
GEOGRAPHIC REGION [a]				
North	1,185	$5,362	142	$4,461
South	117	590	12	334
West	407	1,351	69	897
Not available	..	..	2	45
SIZE OF PORTFOLIO [b]				
Large	1,000	4,052	146	3,794
Medium	204	1,154	46	1,449
Small	505	2,097	33	494
TYPE OF LOAN				
Fully amortized	282	886	23	316
Partially amortized	683	3,012	92	1,338
Nonamortized	730	3,314	109	4,077
Not available	14	91	1	6
CONTRACT LENGTH				
0 – 4 years	1,135	4,509	164	2,402
5 – 9	423	2,177	42	813
10 – 14	123	449	12	2,411
15 – 19	8	45	..	..
20 and over	19	88	7	111
Not available	1	35	..	..
CONTRACT INTEREST RATE				
5.0 – 5.9% [c]	53	527	12	2,468
6.0 – 6.9	1,364	5,956	164	2,871
7.0 and over	292	820	49	398
LOAN-TO-VALUE RATIO [d]				
Under 40%	285	741	55	1,050
40 – 59	1,124	5,153	128	4,105
60 – 79	221	1,109	22	420
80 and over	7	37	2	23
Not available	72	263	18	139
Total	*1,709*	*$7,303*	*225*	*$5,737*

[a] For the states included in each region, see Table 6, footnote [b].
[b] For the definition of portfolio size, see Table 6, footnote [c].
[c] Includes one loan made at 4.0–4.9 percent on an income-producing property.
[d] For a definition of loan-to-value ratio, see Table 10, footnote [c].

APPENDIX C

Mortgage Loan Survey of Commercial Banks: Cost Schedules and Instructions

National Bureau of Economic Research
Financial Research Program

Bank Code No. ....

MORTGAGE LOAN SURVEY OF COMMERCIAL BANKS

SCHEDULE 1 — Mortgage Loans and Real Estate Sales Contracts Outstanding, Charge-Offs, Recoveries, and Income, 1920–46

	Mortgage Loans and Real Estate Sales Contracts (in hundreds of dollars)					
	Outstanding December 31 (1)	Quarterly Average Outst. (2)	Amounts Charged Off During Year [a] (3)	Recoveries During Year [b] (4)	Gross Income During Year [c] Interest (5)	Gross Income During Year [c] Other (6)
	(Report all amounts in hundreds of dollars)					
1946	$	$	$	$	$	$
1945						
1944						
1943						
1942						
1941						
1940						
....						
....						
....						
1925						
1924						
1923						
1922						
1921						
1920						
1919		x x x	x x x	x x x	x x x	x x x

[a] Charge-offs include ....., exclude ....., amounts charged off for "other real estate." (Check one.)

[b] Recoveries reported include ....., exclude ....., recoveries on "other real estate." (Check one.)

[c] (1) Is interest income reported on a cash or accrual basis? .....

(2) If income is reported only in column 5, are the figures inclusive ....., exclusive ....., of "other" income? (Check one.)

(3) Have fees paid to correspondents or other agents for servicing loans been deducted from gross income? Yes ..... No ..... (Check one.)

(4) Has amortization of commissions paid at time of acquisition of mortgages been deducted from gross income? Yes ..... No ..... (Check one.)

(5) Has amortization of premiums paid at time of acquisition of mortgages been deducted from gross income? Yes ..... No ..... (Check one.)

MORTGAGE LOAN SURVEY OF COMMERCIAL BANKS
(continued)

SCHEDULE 2 — Additions to, and Deductions from, the Amount of Mortgage Loans and Real Estate Sales Contracts Outstanding, 1940–46

	Mortgage Loans and Real Estate Sales Contracts (in hundreds of dollars)			
	Outstanding at Beginning of Year (1)	Additions to Loan Account During Year [a] (2)	Deductions from Loan Account During Year [a] (3)	Outstanding at End of Year (4)
	(Report all amounts in hundreds of dollars)			
1940	$	$	$	$
1941				
1942				
1943				
1944				
1945				
1946				

[a] (1) Are loans renewed periodically ....., or are they carried on a past due basis .....? (Check one.)

(2) Do figures for additions and deductions include renewed loans? Yes ..... No ..... (Check one.)

MORTGAGE LOAN SURVEY OF COMMERCIAL BANKS
(continued)

SCHEDULE 3 — Real Estate Acquired in Settlement of Mortgage Loans, Losses, Recoveries, and Income, 1920–46

	Real Estate Acquired in Settlement of Mortgage Loans (in hundreds of dollars)					
	Acquired During Year [a] (1)	Liquidated During Year [a] (2)	Amounts Charged Off During Year (3)	Amount Held as of Dec. 31 (4)	Recoveries During Year (5)	Net Income During Year [b] (6)
	(Report all amounts in hundreds of dollars)					
1946	$	$	$	$	$	$
1945						
1944						
1943						
1942						
1941						
1940						
....						
....						
....						
1925						
1924						
1923						
1922						
1921						
1920						
1919	x x x	x x x	x x x		x x x	x x x

[a] (1) In reporting amounts of "other real estate" acquired, indicate whether the following items have been capitalized. (Check.)

	Yes	No		Yes	No
Foreclosure costs	.....		Taxes	.....	.....
Legal expenses	.....		Overdue interest	.....	

(2) Columns (1) and (2) are reported inclusive ....., exclusive ....., of property acquired or disposed of through trade. (Check one.) See instructions for column (2) of this schedule.

(3) If reports are inclusive of "trades," are these on a net ....., gross ....., basis? (Check one.)

[b] Is income reported net of expenses of operating property? Yes ..... No ..... (Check one.)

MORTGAGE LOAN SURVEY OF COMMERCIAL BANKS
(continued)

SCHEDULE 4 — GENERAL DATA—AMOUNT OF MORTGAGE LOAN ACCOUNT AND INCOME—1946

ITEM	TOTAL	FHA	NON-FHA
	(in hundreds of dollars)		
1. Mortgage loan and real estate sales contract balances outstanding			
December 31, 1945			
a. Number			
b. Amount	$	$	$
December 31, 1946			
a. Number			
b. Amount	$	$	$
2. Mortgage loans and real estate sales contracts made during 1946 [a]			
a. Number			
b. Amount	$	$	$
3. Charge-offs on loans and "other real estate" during 1946	$	x x x	x x x
4. Recoveries on loans and profits on sales of "other real estate," during 1946	$	x x x	x x x
5. Gross income from mortgage loans and real estate sales contracts during 1946 [b]	$	$	$
6. Net income on "other real estate" owned during 1946 [c]	$	x x x	x x x

[a] Are extensions and other adjustments included in the reported amount of loans made during 1946? Yes ..... No ..... (Check one.) See instructions for Item 2 of this schedule.

[b] (1) Have fees paid to correspondents or other outside agents for servicing loans been deducted from gross income? Yes ..... No ..... (Check one.)

(2) Has amortization of commissions paid at time of acquisition of mortgages been deducted from gross income? Yes ..... No ..... (Check one.)

(3) Has amortization of premiums paid at time of acquisition of mortgages been deducted from gross income? Yes ..... No ..... (Check one.)

[c] Have property operating expenses been taken into account in reporting net income on "other real estate"? Yes ..... No ..... (Check one.)

MORTGAGE LOAN SURVEY OF COMMERCIAL BANKS
(concluded)

SCHEDULE 5 — MORTGAGE LOAN COSTS AND RELATED DATA—1946

ITEM	TOTAL	FHA	NON-FHA
	(in hundreds of dollars)		
1. Mortgage department costs—total	$	$	$
a. Direct costs			
b. Indirect costs			
2. Commissions paid out during 1946 for acquisition of mortgage loans			
3. Commission amortization allowable for the year 1946 per Federal Income Tax return			
4. Premiums paid out during 1946 at time of acquisition of mortgage loans			
5. Premium amortization allowable for the year 1946 per Federal Income Tax return			
6. Fees, etc., paid to correspondents and others on a continuing basis for servicing loans			
7. Fees, court costs, etc., paid in connection with foreclosure or acquisition of real estate		x x x	x x x
8. Fees, etc., paid to correspondents and other agents for managing real estate		x x x	x x x
• • • • •			
9. Amount of loans acquired during 1946 on which commissions were paid at time of acquisition			
10. Amount of loans acquired during 1946 on which premiums were paid at time of acquisition			
11. Amount of loan balances on which payments were being made to correspondents and others for servicing			
December 31, 1945			
December 31, 1946			
12. Give list of expenses included as direct costs in Item 1a above.			
Type of Expense — Basis of Allocation			
....			
13. Give list of expenses included as indirect costs in Item 1b above.			
Type of Expense — Basis of Allocation			
....			

MORTGAGE LOAN SURVEY OF COMMERCIAL BANKS

Instructions—Schedule 1

NOTE: In this schedule, the term "reserves" is used to include "reserves for losses on mortgage loans," "valuation reserves," "valuation allowances," "unallocated charge-offs," "unallocated reserves," "specific reserves," "reserves for losses on real estate," and other similar accounts set up in general anticipation of losses when the amounts are not actually charged off or credited to the asset balances carried on the bank's books. Whether the "reserve" account is treated by the bank as a liability account or a capital account is immaterial for the purposes of this schedule. In preparing this schedule, it is suggested that the year 1946 be prepared first and then other years, working back to 1919 if information is available.

Column 1
Report amounts outstanding at year end, net after reserves.

Column 2
If figures are available, report an average based on outstandings at the end of each quarter. If a quarterly average cannot be computed, a satisfactory substitute average may be determined by using call report figures. These data will enable us to compute more accurate loss and income ratios.

Column 3
Report the amount of loan balances charged off during the year, including amounts charged to surplus, undivided profits and reserves. If charge-offs for "other real estate" are intermingled with charge-offs for loans, and the loan charge-offs cannot be segregated, the "other real estate" charge-offs should be included under this heading. Indicate in footnote (a) how figures are reported. See the "Note" which prefaces the Instructions for Schedule 3.

Column 4
Report amounts recovered during the year on loans previously charged off or down. *Do not include recoveries on "other real estate,"* unless they are intermingled with recoveries on loans and cannot be separated. Indicate in footnote (b) how figures are reported. See the "Note" which prefaces the Instructions for Schedule 3.

Columns 5 and 6
Whenever possible report *gross* receipts of "interest" and "other" income separately. If only one column is used, indicate in footnote (c) at bottom of the schedule whether only "interest" or "interest and other" income combined is reported.

"Other" income should not include registration or recovery fees, stamp taxes, title fees, or similar expenses paid by the borrower to the bank, and subsequently paid out by the bank for borrower. In these cases the bank

is acting only as agent. Amounts reported should include renewal fees, commissions, etc., which are retained by the bank as income.

If possible, income should be reported gross before (a) amortization of commissions paid at time of loan acquisition, (b) amortization of amount of premiums paid at time of acquisition of mortgages, (c) any participation in interest by correspondents or other outside agents for the servicing of loan balances, and (d) any specific income reserves.

Indicate in footnote (c) whether or not participations in interest by outside agents and amortization of commissions and premiums paid have been deducted from gross interest income.

Instructions—Schedule 2

Columns 1 and 4

The figures to be reported in columns 1 and 4 may be taken directly from Schedule 1. Data are for the amount of mortgage loans and real estate sales contracts outstanding at the beginning and end of the year, net after reserves. The difference between columns 2 and 3 for each year should reconcile with the difference between outstandings at the beginning and the end of the year.

Column 2

Report all additions to loan account during the year, including new loans, advances on existing loans, increases in loan balances to cover payments of insurance, taxes, etc.

Column 3

Report all deductions from loan account during the year, including loan repayments, transfers to real estate, charge-offs, etc.

Instructions—Schedule 3

NOTE: In this schedule data on holdings of real estate acquired in settlement of mortgage loans, losses, recoveries and income should be given for as many years as possible going back to 1920; data on real estate acquisitions and liquidations are less important but should be given for the years 1940–46 if at all possible. If charge-offs and recoveries for "other real estate" are intermingled with loan charge-offs and recoveries, they may be consolidated in Schedule 1 and not reported in this schedule. See the "Note" which prefaces the Instructions for Schedule 1.

Column 1

Report book value of foreclosures or voluntary acquisitions of real estate completed or posted to books during the year. Please indicate in footnote (a) whether foreclosure costs, legal expenses, taxes, overdue interest, and other items have been capitalized and, also, whether property acquired through trade, that is, in exchange for other property liquidated, is included.

(See also the instruction below referring to column 2 for the method of reporting trades.)

Column 2
Report book value of property disposed of through sales, or trades. If any trades have occurred indicate whether these have been reported gross or net. Thus, if trades are reported *net* and the book value of the property liquidated is in excess of the property acquired in exchange, the excess amount should be reported in this column as "real estate liquidated during the year." If the book value of property received in trades exceeds the book value of property disposed of, the excess should be reported in column 1 as "real estate acquired during the year."

On the other hand, if trades are reported *gross,* the value of the property received in exchange should be included in column 1, and the value of the property given in exchange should be included in column 2.

Column 3
Report amounts charged off during the year, including amounts charged to surplus, undivided profits, and reserves. If charge-offs and recoveries on "other real estate" are put through the loan account, or a reserve account for loans, and cannot be segregated, then report the combined loan and "other real estate" figures in column 3 of Schedule 1.

Column 4
Report amounts of "other real estate" held at year end, net after reserves.

Column 5
Report amounts recovered on "other real estate" previously charged down or off, amounts in excess of book value received from sale or other disposition of real estate, or amounts credited to valuation reserves on account of recoveries and profits. If charge-offs of "other real estate" are not segregated and are reported under mortgage loans in Schedule 1, then recoveries on "other real estate" should also be included in column 4 of Schedule 1.

Column 6
Report amount of net operating income received from "other real estate." By net operating income is meant gross income from rents, etc., net of the expenses of operating property, including capital expenditures in such expenses. If amounts reported are *not* net of the operating expenses incurred on the property, indicate this fact in footnote (b).

INSTRUCTIONS—SCHEDULE 4

NOTE: In this schedule the term "reserves" is used to include "reserves for losses on mortgage loans," "valuation reserves," "valuation allowances," "unallocated charge-offs," "unallocated reserves," "specific reserves," "reserves for losses on real estate," and other similar accounts set up in general anticipation of losses when the amounts are not actually

charged off or credited to the asset account and do not actually reduce or increase the asset balances carried on the bank's books. Whether the "reserve" account is treated by the bank as a liability account or a capital account is immaterial for the purposes of this schedule.

If you have already completed Schedules 1, 2, and 3 of the *Mortgage Loan Study for Commercial Banks* you will find that many of the items called for in this schedule can be taken directly from these other schedules.

Item 1

Report book value amounts of mortgage loan and real estate sales contract balances outstanding net after reserves. Balances should be broken down, if possible, into FHA and Non-FHA accounts. *If it is not possible to make breakdowns of loan balances as indicated, fill in only the "total" column.* If possible, respondents should give the number as well as the amount (in dollars) of the different accounts outstanding.

Item 2

Report the total amount of new loans made during 1946, sales contracts entered into, advances made on loans already on the books, and loans renewed. Exclude extensions and other adjustments, but if this cannot be done indicate in footnote (a) that they are included.

Loans made and real estate contracts entered into during 1946 should be broken down, if possible, among the indicated types of mortgages, but if this is not possible at least the "total" number and amount (in dollars) should be given.

Item 3

Report amounts charged off during the year 1946 on loans and "other real estate," including amounts charged to surplus, undivided profits, and reserves.

Item 4

Report amounts recovered during 1946 on loans previously charged off or down, including amounts credited to valuation reserves on account of recoveries; also report the amount recovered during the year on real estate previously charged off or down, amounts in excess of book value recovered from the sale or other disposition of real estate, including amounts credited to valuation reserves on account of recoveries and profits.

Item 5

In reporting 1946 income do not include registration or recording fees, stamp taxes, title fees, or similar expenses paid by the borrower to the bank, and subsequently paid out by the bank for the borrower. In these cases the bank is acting only as an agent. Amounts reported should include renewal fees, commissions, etc., which are retained by the bank as income.

If possible, income should be reported gross, before (a) amortization of commissions paid at time of loan acquisition, (b) amortization of

amount of premiums paid at time of acquisition of mortgages, (c) any participation in interest by correspondents or other outside agents for the servicing of loan balances, and (d) any specific income reserves.

Indicate in footnote (b) whether or not participations in interest by outside agents and amortization of commissions and premiums paid have been deducted from gross interest income.

If possible, give the breakdown for interest income and other income according to the indicated types of mortgage loans.

Item 6

Report amount of net operating income received during 1946 from "other real estate" owned by the bank. By net operating income is meant gross income from rents, etc., net of expenses of operating property. Expenses of operating property should include taxes, repairs, alterations, decorating, custodians, etc. If amounts reported are *not* net of property operating expenses, indicate this fact and related information in footnote (c).

Instructions—Schedule 5

Item 1

Mortgage department costs should be reported for the year 1946, if possible, according to the indicated breakdown. Although individual reporting institutions are to follow their own customary practices in distinguishing between direct and indirect costs the following suggestions may be helpful in completing the schedule.

Direct costs are considered to be those expenses of operating the mortgage loan department which are traceable to that department without arbitrary allocation, such as the following: salaries, legal fees and court costs, recording fees, dues and subscriptions, postage, telephone and telegraph, freight and express, supplies, rent or occupancy charge, furniture and fixture repairs, advertising, insurance and personal bonds, travel, car expense, machine service, employees' retirement. In some institutions certain of these expenses may be handled as indirect costs, and some types of expenditures not listed above might possibly be handled on a direct basis. The reporting bank should, as indicated above, follow its customary practice in reporting costs but should *indicate in Item 12 the specific types of expense that have been included as direct costs.*

Indirect expenses of the department are those that have to be attributed to the mortgage loan department on some basis of allocation. Examples would be general administration costs, directors' fees, etc., costs of general employee welfare and service departments, as well as a share of the costs of operating those departments of the bank that serve other divisions as well as the mortgage loan department (e.g., bookkeeping, paying, receiving, proving, auditing, trust, service, and research). The responding bank should follow its usual practices in reporting "indirect" expenses but should *indicate in Item 13 the types of expense that have*

been included under this heading and the bases on which allocations have been made.

Item 2
Report all commissions paid out during 1946 for the acquisition of mortgage loans, giving the indicated breakdown, if possible.

Item 3
Report amount of commission amortization allowable as a deduction in 1946 Federal Income Tax return. Give the indicated breakdown, if possible.

Item 4
Report the amount of all premiums paid during 1946 at time of purchase of mortgage loans. Give the indicated breakdown, if possible.

Item 5
Report amount allowed as a deduction in 1946 Federal Income Tax return. Give the indicated breakdown, if possible.

Item 6
Report under this item all amounts paid out during the year to correspondents or other agents as participations in interest or other fees where these payments were made on a continuing basis as distinct from the lump sum payments paid at the time loans were acquired and which are reported in Item 4 above. Ordinarily such payments are for the servicing of mortgage loan accounts.

If participations in interest by correspondents and others have been deducted in Item 5 of Schedule 4, such participations in interest should not be reported here.

Item 7
Include all fees, court costs, etc., disbursed during the year 1946 which arose in connection with the foreclosure or acquisition of real estate.

Item 8
Include all fees and commissions actually disbursed during the year 1946 to correspondents and other agents as remuneration for the management of "other real estate."

Item 9
Report the principal amount of all loans acquired during 1946 on which the bank paid a commission at time of acquisition.

Item 10
Report the principal amount of all loans acquired during 1946 on which the bank paid a premium at time of acquisition.

Item 11
Report here the principal amount of all loan balances at beginning and end of 1946 on which the bank made payments to correspondents or others as compensation for the servicing of such balances.

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Mr. Behrens holds the Master of Science degree from Iowa State College, did graduate work at Harvard University, the University of Michigan and University of Berlin, and from 1927 to 1929 was professor and head of the Department of Finance at the University of Detroit.

Studies in Urban Mortgage Financing

In 1944 the National Bureau of Economic Research, as part of its Financial Research Program, initiated a series of related investigations into the field of urban real estate finance. The eight studies planned for the series have as their purpose the advancement of knowledge about the practices, costs, losses, yields, and risks of urban real estate financing, as bases for improved public understanding of this area of finance and for more constructive policy-making.

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